粵海制革有限公司
GUANGDONG TANNERY LIMITED

Annual Report 2010 年報

(股份代號 Stock Code: 1058)

Contents

Corporate Information

BOARD OF DIRECTORS

Chen Hong *(Chairman)*
Sun Jun *(Managing Director)*
Xiong Guangyang#
Ho Lam Lai Ping, Theresa#
Qiao Jiankang#
Fung Lak*
Choi Kam Fai, Thomas*
Chan Cheong Tat*

Non-Executive Director
* *Independent Non-Executive Director*

AUDIT COMMITTEE

Fung Lak *(Chairman)*
Choi Kam Fai, Thomas
Chan Cheong Tat

REMUNERATION COMMITTEE

Choi Kam Fai, Thomas *(Chairman)*
Fung Lak
Chan Cheong Tat

NOMINATION COMMITTEE

Chen Hong *(Chairman)*
Fung Lak
Choi Kam Fai, Thomas
Chan Cheong Tat

COMPANY SECRETARY

Lo Sze Sze

AUDITORS

Ernst & Young

REGISTERED OFFICE

29th Floor, Guangdong Investment Tower
148 Connaught Road Central
Hong Kong

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Website: http://www.gdtann.com.hk

SHARE REGISTRAR

Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Hong Kong

SHARE INFORMATION

Place of Listing	:	Main Board of The Stock Exchange of Hong Kong Limited
Stock Code	:	1058
Board Lot	:	2,000 shares
Financial Year End	:	31 December

Chairman’s Statement

RESULTS

I would like to present to the shareholders that the consolidated profit attributable to shareholders of Guangdong Tannery Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) for 2010 was HK$6,212,000 (2009: HK$14,700,000), a decrease of 57.7% over last year. Basic earnings per share was HK1.16 cents (2009: HK2.73 cents), a decrease of 57.5% compared with last year.

DIVIDEND

The board of directors of the Company (the “Board”) does not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: Nil).

REVIEW

In the first half of 2010, with the sound operation of its macroeconomic environment, China had successfully shaken off the adverse impacts of the international financial and economic crisis and resumed its normal growth track. Likewise, full recovery was seen in the first half of 2010 as the China tannery industry also extended its good run since the second half of 2009. However, as a traditional production industry, it was driven into an unprecedented tight corner in the second half of 2010 by changes in the international and domestic economic situation as well as the deepening effects of the domestic macroeconomic policies. In the first place, continual increases in costs of raw materials and labour began to pounder the stable operations of the enterprises with additional pressures; secondly, domestic sales demands within the industry shrank significantly due to the mismatching between product sales and extreme weather conditions. Concurrently, overseas sales of footwear products did not see obvious changes due to continuous extension of trade barriers by the European Union. As a result of the ferocious competition in export markets, sales prices of leather goods remained in tatters and prevailed with difficulties for the sustainable development of the enterprises. Amidst significant inflated raw material prices, increasing labour costs and ongoing environmental protection pressures, the Group managed to develop its tasks closely interwoven with the guiding directions of “ensuring operating efficiency, completing plant removals, optimising team building, and deepening the basic management”. These have sustained production capacity, stabilised profitability, reduced obsolete stocks and enhanced inventory structure.

In terms of strategic development, as a result of the land planning and development proposals issued by the People’s Government of Xuzhou City in respect of environmental protection policies, the existing downstream finished leather product manufacturing operations of Xuzhou Nanhai Leather Factory Co. Ltd. (“Xuzhou Tannery”) were also relocated to and integrated into the new factory. The new factory has recently been completed. With the present upstream and downstream processing production scale of approximately 4 million sq. ft. for monthly production capacity, the Group has not only resolved the lack of synergy between the upstream and downstream processing issues but also improved the environmental protection problems.

Chairman's Statement

REVIEW (CONTINUED)

During the year, the Group paid particular attention to the international and domestic economic situations and closely monitored the imported cowhides market so as to capitalise on its price trends by purchasing in time of needs and regularly in order to form a steady purchase format and avoid the significant fluctuation risks in cowhides. The Group also undertook the procurement strategy of direct purchases from large slaughter-houses to minimise the prices charged by intermediaries on cowhides and safeguard our supplies. Operating in an adverse industry environment with vibrant international and domestic economic conditions, the Group has analysed its actual situation genuinely by leveraging on the economic setup of the international and domestic industry on the basis of sales market and realigning the production and sales strategies timely through the establishment of mutually trustworthy strategic supply-and-sales relationship with large footwear manufacturers. Such strategies have not only laid down long-term and continuous cooperation foundation but also ensured that product prices are better with stable production volumes. Through our research and development, a series of new products have been launched in succession, with acclaims from customers and markets, which further strengthened our competitive advantages in the marketplace.

PROSPECTS

The operating environment of the tannery industry in 2011 will not be optimistic as the space for development via the extension of production volume and expansion of size of the manufacturing industry is coming to its end. With the backdrop of shuffling the downstream footwear industry, and centralisation of market share in the hands of sizeable enterprises with brand-name, network, research and development and funding, it can be foreseen that the pre-requisite and foundation for survival and development in the tannery industry are rested in those with large operating scales, complete environmental protection formalities and healthy supply and distribution channels. With the opportunity made available by the integration of the upstream and downstream processing at the existing Xuzhou production plant, together with the "overall smoothing of all production and operation relationship and practical expansion of development foundation" as the objectives, the Group will accelerate its industry upgrade, reduce its energy consumption, enhance efficiency and mould its environmental-friendly plant. In respect of internal control management, the Group will continue to push the optimisation of its production technology; actively promote the integration between production process and workers' team, enhance the supply and distribution channels, strengthen the controls over raw material resources and optimise customer structure of sales and seek to achieve the enhancement of the overall industry status and operating results of the Group in 2012.

Chen Hong
Chairman

Hong Kong, 11 March 2011

Management Discussion and Analysis

RESULTS

The Group's consolidated profit attributable to shareholders for the year ended 31 December 2010 was HK$6,212,000, representing a decrease of HK$8,488,000 or 57.7% as compared to the profit of HK$14,700,000 for last year.

The net asset value of the Group as at 31 December 2010 was HK$303,121,000, representing an increase of HK$22,097,000 and HK$455,000, as compared to the net asset values as at 31 December 2009 and 30 June 2010 respectively.

The Board does not recommend the payment of a final dividend for the year ended 31 December 2010.

BUSINESS REVIEW

In 2010, the operation of enterprises faced new challenges under the hybrid economic model of inflation and deflation in China's macroeconomic environment and in the tannery industry. In consolidating the foundation of its existing scale of operation, the Group re-defined its directions of development, rebuilt its internal structure and optimised staff teams. To leverage on the economic setup of the international and domestic industry, the Group adjusted production and sales strategies timely to maintain basic production volume in terms of production requirements and orders and by establishing strategic cooperation relationship to ensure better product prices with stable production volumes. The Group also stabilised its production and operation aspects solidly by taking a positive role in production and operation by relocating the plants during the year so as to ensure profitability as its main purpose.

During the year, the total production volume of cowhides was 27,840,000 sq. ft., a decrease of 1,379,000 sq. ft. or 4.7% over 29,219,000 sq. ft. for the same period of last year. The production volume of grey hides was 12,704 tons, an increase of 2,037 tons or 19.1% over 10,667 tons for the same period of last year.

During the year, the consolidated turnover of the Group was HK$520,737,000, an increase of HK$53,478,000 or 11.4% over HK$467,259,000 for the same period of last year, of which cowhides amounted to HK$463,968,000 (2009: HK$439,170,000), an increase of 5.6% and greyhides and other products amounted to HK$56,769,000 (2009: HK$28,089,000), an increase of 102.1%. The increase in turnover was primarily due to the increase in selling price of both imported cowhides and greyhides but a decrease in sales volume. The prices for cowhides continued to increase, but the selling price in general failed to catch up. Faced with such unfavourable market environment, the Group proactively expanded the strategic supply-and-sales relationship with large footwear manufacturers, and entered into long-term sales orders with them. This not only achieved in lifting product prices earlier than planned, it also increased our share in the end user sales market with sound sales network established for the Group. More importantly, stability in production was secured, and the goal of lifting selling price in a ladder-shaped pattern was ultimately achieved.

Faced with the situation of tight raw material supply within the tannery industry and rising prices of cowhides beyond our control, the Group closely observed the changes in international and domestic economies. Close attention was paid to monitor the price movement trends of imported cowhides market. Purchases were made strictly in accordance with production capacity regularly in order to form a steady purchase format and avoid the significant fluctuation risks in cowhides. During the year, total purchases increased by 76.1% over last year to HK$478,789,000, which were flat in volume against last year, save for the surge in cowhides purchase prices.

Management Discussion and Analysis

BUSINESS REVIEW (CONTINUED)

Despite the decrease in the volume of inventory over last year, the Group's consolidated inventory amount rose by HK$45,505,000 to HK$151,878,000 (31 December 2009: HK$106,373,000), an increase of 42.8%, which was subject to increases in cowhides purchase prices. During the year, the Group continued to aim at minimising the inventory level through active depletion of obsolete inventory. Solutions for disposals of obsolete products were rectified specifically. Obsolete inventory was successfully utilised through the application of a number of technical measures to open up diversified sales channel. The weighing of finished products to total inventory also fell from 26.7% at the end of 2009 to 20.2% as at 31 December 2010. At the same time, the inventory composition was further optimised.

In terms of strategic development, the Group realigned its development strategy timely according to the land planning and development proposals requested by the People's Government of Xuzhou City in respect of its environmental protection policies by closing the old production plant of Xuzhou Tannery in the third quarter of 2010. During the year, the existing downstream finished leather products manufacturing operations of Xuzhou Tannery were also relocated to and integrated into the new factory. The new factory has recently been completed. After integration, the new factory has a total production capacity (downstream finished leather products) of 2 million sq. ft. per month. With the present upstream and downstream processing production scale of approximately 4 million sq. ft. available for monthly production capacity, the Group has not only resolved the lack of synergy between upstream and downstream processing but also improved the environmental protection problems.

On 4 January 2011, the Company announced that it intended to put forward a proposal, for approval by shareholders, to reduce the share premium account of the Company by HK$393,345,845 to eliminate the accumulated losses by the same amount (the "Proposed Share Premium Reduction"), the purpose of which is to bring the Company to a position that might permit the payment of dividends if and when the Company's financial position allows and the Board considers appropriate in the future. The Proposed Share Premium Reduction has been passed by shareholders at the extraordinary general meeting held on 1 February 2011, and conditional upon the sanction by the High Court of Hong Kong.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2010, the Group's cash and cash equivalents amounted to HK$107,718,000 (as at 31 December 2009: HK$157,014,000), representing a decrease of HK$49,296,000 or 31.4% as compared to the same as at 31 December 2009, which were denominated in Hong Kong dollars (1.6%), Renminbi (97.4%) and United States dollars (1.0%) respectively. During the year, net cash outflow from operating activities was HK$7,934,000, which was mainly attributed to the increase in cash payment for the purchase of raw materials as a result of the increase in raw materials prices. The cash outflow from investing activities was HK$45,142,000, which mainly represented the increase in pledged bank deposits.

Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

Liquidity and Financial Resources (Continued)

As at 31 December 2010, the Group's interest-bearing borrowings amounted to HK$181,390,000 (31 December 2009: HK$140,706,000), of which, interest-bearing borrowings in Hong Kong dollars amounted to HK$65,000,000 and interest-bearing borrowings in US dollars amounted to HK$116,390,000. The Group's borrowings mainly consist of: (1) balances of short-term loans provided by the banks of HK$39,011,000, which were secured by bank deposits of RMB27,496,000; and (2) balances of short-term unsecured inter-group borrowings of HK$87,779,000 and balances of long-term unsecured inter-group borrowing of HK$54,600,000. The above interest-bearing borrowings were charged at floating interest rate.

As at 31 December 2010, the Group's gearing ratio of the interest-bearing borrowings to adjusted capital (including shareholders' equity) plus interest-bearing borrowings was 37.4% (31 December 2009: 18.4%). During the year, the annual interest rate of the borrowings was approximately 1.3% to 3.8%. Of the Group's total borrowings, all are repayable within one year, save for the loan from a fellow subsidiary amounting to HK$54,600,000. The Group's interest expenses for the year amounted to HK$4,781,000, representing a decrease of 29.0% over last year.

As at 31 December 2010, the total banking facilities of the Group was HK$135,148,000 (31 December 2009: HK$158,998,000), of which banking facilities of HK$39,011,000 (31 December 2009: Nil) were utilised and HK$96,137,000 were unutilised (2009: HK$158,998,000). Taking into account of the existing cash resources and available credit facilities as well as the cash flow generated by the Group's operations, the Group had adequate financial resources to meet its day-to-day operational requirements.

Capital Expenditure

As at 31 December 2010, the net value of non-current assets, including prepaid land lease payments, property, machinery and equipment, amounted to HK$111,652,000, representing an increase of HK$11,276,000 over the net value as at 31 December 2009 of HK$100,376,000. The capital expenditure for the year amounted to HK$17,732,000 (2009: HK$36,095,000), which were primarily the payments for the construction works as well as the acquisition of machinery and equipment for new projects to cope with the production and development requirements of the Group.

Pledge of Assets

As at 31 December 2010, certain of the Group's bank balances with a total of HK$32,314,000 (31 December 2009: bank balances, plant and machinery with a total net book value of HK$16,208,000) were pledged to secure general banking facilities granted to the Group.

Risk of Exchange Rate

The assets, liabilities and transactions of the Group are basically denominated in Hong Kong dollars, United States dollars or Renminbi. During the year, the exchange rates of Hong Kong dollars and United States dollars were relatively stable and did not constitute any material foreign exchange risk; as to the appreciation of Renminbi, as the Group's sales are settled in Renminbi, and purchases are made in Renminbi and United States dollars, the Group does not have any material foreign exchange risk.

Management Discussion and Analysis

FINANCIAL REVIEW (CONTINUED)

Remuneration Policy for Employees

As at 31 December 2010, a total of 849 employees (31 December 2009: 932) were employed by the Group. Our remuneration policy is based on the Group's operating results and the employees' performance. The Group has adopted a performance-based appraisal scheme for its employees focusing on "accountability and performance". The incentive bonuses to the management, key officers and staff with outstanding performance under the incentive scheme are determined by reference to the Group's operating net cashflow and profit after tax, calculated by various profit rankings and by applying a measure that links bonuses with the operating results of the Group and further taking into account of the individual performance of the staff concerned with an aim to motivate the contribution of its employees. In addition, the Group offered social and medical insurance and provident fund to all employees in different areas. The Company has adopted a new share option scheme in November 2008, with the purpose to provide incentives to the senior management to contribute to the Group, and to enable the Group to recruit and retain quality employees to serve the Group on a long-term basis.

Biographical Details of Directors and Senior Management

(A) EXECUTIVE DIRECTORS

Mr. Chen Hong (Age: 55)

Mr. Chen Hong was appointed an Executive Director and the Chairman of the Company in October 2009. He is an economist in the People's Republic of China ("PRC"). He worked with the Company and its subsidiaries from 2003 to 2005 and was appointed the Managing Director of the Company during the period from February 2004 to June 2005. He was then appointed the chairman of 粵海(湛江)中纖板有限公司 (GD Zhang Jiang MDF Board Co., Ltd.) from June 2005 to September 2007. 粵海(湛江)中纖板有限公司 (GD Zhang Jiang MDF Board Co., Ltd.) was the then wholly-owned subsidiary of GDH Limited ("GDH"), the immediate controlling shareholder of the Company. Mr. Chen was also appointed a director and executive officer of certain subsidiaries of 廣東粵海控股有限公司 (Guangdong Holdings Limited), the ultimate controlling shareholder of the Company, from September 2007 to October 2009, including, inter alia, a director and the general manager of both GDH Real Estates (China) Ltd. (粵海房地產開發(中國)有限公司) and 廣東粵港投資開發有限公司 (Guangdong Yue Gang Investment Development Limited*). Mr. Chen currently acts as the chairman of wholly-owned subsidiaries of the Company namely 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.), 徐州港威皮革有限公司 (Xuzhou Gangwei Leather Co., Ltd.) and 粵海制革(徐州)有限公司 (Guangdong Tannery (Xuzhou) Limited).

Mr. Sun Jun (Age: 37)

Mr. Sun was appointed an Executive Director and the Managing Director of the Company in February 2010. He is an economist in the PRC. He graduated from 西安公路學院 (Xian Highway College*) (now known as 長安大學 (Chang'an University) and obtained a bachelor degree in 工程機械與起重運輸 (Mechanical Engineering and Lifting Transportation Program*). Mr. Sun worked with certain companies of GDH from November 2002 to August 2003. He then worked with the Company and its subsidiaries in September 2003 and was appointed certain posts, including, inter alia, acting as assistant general manager and deputy general manager of the Company from March 2004 to December 2005 and from July 2007 to February 2010 respectively. Mr. Sun currently acts as certain posts of wholly-owned subsidiaries of the Company, including a director and the general manager of 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.), 徐州港威皮革有限公司 (Xuzhou Gangwei Leather Co., Ltd.) and 粵海制革(徐州)有限公司 (Guangdong Tannery (Xuzhou) Limited); and an executive deputy project director of 粵海制革(徐州)有限公司 (Guangdong Tannery (Xuzhou) Limited) and relocation project of 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.).

* *The English translation of the Chinese name of the company/the college/the program is prepared by the Company for reference only, and such translation may not be accurate and such company/college/program may not have an official English translation/version of these Chinese names.*

Biographical Details of Directors and Senior Management

(B) NON-EXECUTIVE DIRECTORS

Mr. Xiong Guangyang (Age: 56)

Mr. Xiong was appointed a Director of the Company in June 2002. He is a senior economist in the PRC. He graduated from Jilin University and obtained a master degree in Economics from the Graduate School of The People's Bank of China. Mr. Xiong joined GDH in October 2000 and was appointed a director of GDH in May 2001. He is also the chief strategic development officer and the general manager of the strategic development department of GDH. Prior to joining GDH, Mr. Xiong was mainly engaged in management and operations works in banks. From 1986 to 1996, he was the assistant governor of The People's Bank of China, Guangdong Branch and the governor of The People's Bank of China, Shantou Branch. From 1996 to September 2000, Mr. Xiong was with China Everbright Bank in a number of positions including executive deputy president of its Guangzhou Branch.

Mrs. Ho Lam Lai Ping, Theresa (Age: 55)

Mrs. Ho was appointed a Director of the Company in July 2000. She also acted as a director of Kingway Brewery Holdings Limited ("Kingway") during the period from 17 August 2000 to 24 July 2008. Mrs. Ho has been the Company Secretary of Guangdong Investment Limited ("GDI") since December 1992. Both Kingway and GDI are subsidiaries of GDH and are listed on The Stock Exchange of Hong Kong Limited. She graduated from Hong Kong Polytechnic and is an associate of both The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Company Secretaries.

Mr. Qiao Jiankang (Age: 46)

Mr. Qiao was appointed a Director of the Company in September 2009. He graduated from China University of Political Science and Law and obtained a master degree in Economical Law. He possesses the professional qualifications as both lawyer and enterprise legal adviser in the PRC. Since 2000, Mr. Qiao has acted as a director and in other positions of certain subsidiaries of GDH. He is the senior manager of the legal department of GDH and the deputy general manager of the legal department of GDI. He also acts as a director of 徐州南海皮廠有限公司 (Xuzhou Nanhai Leather Factory Co., Ltd.) and 粵海制革(徐州)有限公司 (Guangdong Tannery (Xuzhou) Limited), both of which are subsidiaries of the Company. Mr. Qiao has over 15 years' experience in enterprise legal works.

Biographical Details of Directors and Senior Management

(C) INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Fung Lak (Age: 63)

Mr. Fung was appointed an Independent Non-Executive Director of the Company in November 2002. He holds a bachelor degree in Science (Economics) major in Accounting and Finance from the London School of Economics and Political Science of University of London. He is also a fellow member of Hong Kong Institute of Certified Public Accountants, an associate member of the Institution of Chartered Accountants in the United Kingdom, a fellow member of the Association of Chartered Certified Accountants and a member of the Taxation Institute of Hong Kong. Mr. Fung was the former president of the Society of Chinese Accountants and Auditors. Mr. Fung has over 20 years' experience in the accounting and finance and is a director of Lak & Associates C.P.A. Limited.

Mr. Choi Kam Fai, Thomas (Age: 65)

Mr. Choi was appointed an Independent Non-Executive Director of the Company in October 2004. He is a Certified Management Accountant with the Society of Management Accountants of Canada. He holds a bachelor degree in Commerce and Business Administration from the University of Alberta, Canada and completed the Executive Development Program organized by J.L. Kellogg Graduate School of Management of the Northwestern University, U.S.A.. Mr. Choi is the General Manager of the Internal Audit Department of Henderson Land Development Company Limited. He has worked for the audit departments of various private, public and governmental bodies in Hong Kong and Canada for 30 years.

Mr. Chan Cheong Tat (Age: 61)

Mr. Chan was appointed an Independent Non-Executive Director of the Company in March 2006. He is a fellow member of Hong Kong Institute of Certified Public Accountants, Chartered Association of Certified Accountants and CPA Australia. He is also an associate member of The Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Company Secretaries. Mr. Chan obtained his master's degree in Financial Management from Central Queensland University. He served in the Inland Revenue Department of the Hong Kong Government for 33 years and left the government service in early 2005. Mr. Chan is now director of a tax consultancy company and independent non-executive director of Noble Jewelry Holdings Limited (stock code: 00475).

(D) SENIOR MANAGEMENT

The senior management of the Group comprises the Executive Directors above (namely Mr. Chen Hong and Mr. Sun Jun) and Ms. Lee Wai Mei, the Chief Financial Officer of the Company.

Ms. Lee Wai Mei (Age: 36)

Ms. Lee was appointed the Chief Financial Officer of the Company in May 2005. She has over 15 years of experience in auditing and accounting. She is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

Report of the Directors

The directors (the "Directors") of Guangdong Tannery Limited (the "Company") herein present their report and the audited financial statements of the Company and its subsidiaries (together the "Group") for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company and provides corporate management services to its subsidiaries. The Group is principally engaged in the processing and sale of semi-finished and finished leather. The activities of the principal subsidiaries of the Company are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 35 to 100.

No interim dividend was paid during the year and the Directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2010.

FINANCIAL SUMMARY

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate and adjusted to reflect the change in accounting policies. The summary does not form part of the audited financial statements.

Results

	Year ended 31 December				
	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**520,737**	467,259	525,480	626,618	419,975
Profit from operating activities	**19,061**	33,084	20,898	28,301	31,146
Finance costs	**(4,781)**	(6,731)	(13,224)	(10,846)	(5,726)
Profit before tax	**14,280**	26,353	7,674	17,455	25,420
Income tax	**(8,068)**	(11,653)	(4,624)	(5,879)	(4,763)
Profit for the year	**6,212**	14,700	3,050	11,576	20,657

Report of the Directors

FINANCIAL SUMMARY (CONTINUED)

Assets and liabilities

	As at 31 December				
	2010	2009	2008	2007	2006
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Property, plant and equipment, investment property and prepaid land lease payments	**111,652**	100,376	72,413	47,212	34,785
Interest in an associate	**–**	–	–	–	1,219
Current assets	**468,771**	436,421	455,954	544,153	345,858
Total assets	**580,423**	536,797	528,367	591,365	381,862
Liabilities					
Current liabilities	**221,985**	177,932	78,507	204,177	150,695
Long term liabilities	**55,317**	77,841	182,624	144,006	31,446
Total liabilities	**277,302**	255,773	261,131	348,183	182,141
Net assets	**303,121**	281,024	267,236	243,182	199,721

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment, and investment property of the Company and the Group during the year are set out in notes 12 and 13 to the financial statements.

CONVERTIBLE NOTES

Details of the issue of the convertible notes of the Company are set out in note 25 to the financial statements.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Company and the Group as at 31 December 2010 are set out in notes 20, 22 and 23 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's ordinary share capital during the year are set out in note 27 to the financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Report of the Directors

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 29 to the financial statements and in the consolidated statement of changes in equity.

DISTRIBUTABLE RESERVES

At 31 December 2010, no reserves, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, is available for cash distribution.

CHARITABLE CONTRIBUTIONS

The Group did not make any charitable contributions during the year (2009: Nil).

DIRECTORS

The Directors during the year and up to the date of this report were :

Chen Hong *(Chairman)*
Sun Jun *(Managing Director)* *(appointed on 5 February 2010)*
Xiong Guangyang#
Ho Lam Lai Ping, Theresa#
Qiao Jiankang#
Fung Lak*
Choi Kam Fai, Thomas*
Chan Cheong Tat*

\# *Non-Executive Director*
* *Independent Non-Executive Director*

Mrs. Ho Lam Lai Ping, Theresa and Mr. Choi Kam Fai, Thomas will retire by rotation in accordance with Articles 82 to 84 of the Company's Articles of Association at the forthcoming annual general meeting of the Company. Being eligible, Mrs. Ho Lam Lai Ping, Theresa and Mr. Choi Kam Fai, Thomas will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

No Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Group which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

None of the Directors had a material beneficial interest, whether directly or indirectly, in any significant contract to which the Company or any of its subsidiaries, its holding companies or a subsidiary of its holding companies was a party during the year or as at 31 December 2010.

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 31 December 2010, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be (i) notified to the Company and The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and the chief executive were taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange ("Listing Rules"), were as follows:

(I) INTERESTS AND SHORT POSITIONS IN THE COMPANY

(1) Interests in ordinary shares

Name of Director	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held *(Note)*
Fung Lak	Personal	1,380,000	Long position	0.26%
Choi Kam Fai, Thomas	Personal	60,000	Long position	0.01%

Note: The approximate percentage of interests held was calculated on the basis of 537,619,000 ordinary shares of the Company in issue as at 31 December 2010.

(2) Interests in share options relating to ordinary shares (long positions)

Name of Director	Number of share options: At 1 January 2010	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2010	Date of grant of share options *(dd.mm.yyyy)*	Total consideration paid for share options *HK$*	Exercise period of share options (both days inclusive) *(dd.mm.yyyy)*	Exercise price of share options* *HK$ (per share)*	Price of ordinary shares at date immediately before date of grant** *HK$ (per share)*	Price of ordinary shares immediately before the exercise date** *HK$ (per share)*
Chen Hong	–	2,044,000	–	–	2,044,000	14.07.2010	–	14.07.2012–13.01.2016	0.435	0.435	–
	–	1,533,000	–	–	1,533,000	14.07.2010	–	14.07.2013–13.01.2016	0.435	0.435	–
	–	511,000	–	–	511,000	14.07.2010	–	14.07.2014–13.01.2016	0.435	0.435	–
	–	1,022,000	–	–	1,022,000	14.07.2010	–	14.07.2015–13.01.2016	0.435	0.435	–

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

(I) INTERESTS AND SHORT POSITIONS IN THE COMPANY (Continued)

(2) Interests in share options relating to ordinary shares (long positions) (Continued)

	Number of share options										
Name of Director	At 1 January 2010	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2010	Date of grant of share options *(dd.mm.yyyy)*	Total consideration paid for share options *HK$*	Exercise period of share options (both days inclusive) *(dd.mm.yyyy)*	Exercise price of share options* *HK$ (per share)*	Price of ordinary shares at date immediately before date of grant** *HK$ (per share)*	Price of ordinary shares immediately before the exercise date** *HK$ (per share)*
Sun Jun	80,000	–	–	40,000	40,000	24.11.2008	–	24.11.2010–23.05.2014	0.278	0.27	–
	60,000	–	–	–	60,000	24.11.2008	–	24.11.2011–23.05.2014	0.278	0.27	–
	20,000	–	–	–	20,000	24.11.2008	–	24.11.2012–23.05.2014	0.278	0.27	–
	40,000	–	–	–	40,000	24.11.2008	–	24.11.2013–23.05.2014	0.278	0.27	–
	–	504,000	–	–	504,000	14.07.2010	–	14.07.2012–13.01.2016	0.435	0.435	–
	–	378,000	–	–	378,000	14.07.2010	–	14.07.2013–13.01.2016	0.435	0.435	–
	–	126,000	–	–	126,000	14.07.2010	–	14.07.2014–13.01.2016	0.435	0.435	–
	–	252,000	–	–	252,000	14.07.2010	–	14.07.2015–13.01.2016	0.435	0.435	–
Xiong Guangyang	460,000	–	–	230,000	230,000	24.11.2008	–	24.11.2010–23.05.2014	0.278	0.27	–
	345,000	–	–	–	345,000	24.11.2008	–	24.11.2011–23.05.2014	0.278	0.27	–
	115,000	–	–	–	115,000	24.11.2008	–	24.11.2012–23.05.2014	0.278	0.27	–
	230,000	–	–	–	230,000	24.11.2008	–	24.11.2013–23.05.2014	0.278	0.27	–
	–	1,728,000	–	–	1,728,000	14.07.2010	–	14.07.2012–13.01.2016	0.435	0.435	–
	–	1,296,000	–	–	1,296,000	14.07.2010	–	14.07.2013–13.01.2016	0.435	0.435	–
	–	432,000	–	–	432,000	14.07.2010	–	14.07.2014–13.01.2016	0.435	0.435	–
	–	864,000	–	–	864,000	14.07.2010	–	14.07.2015–13.01.2016	0.435	0.435	–
Qiao Jiankang	–	712,,000	–	–	712,000	14.07.2010	–	14.07.2012–13.01.2016	0.435	0.435	–
	–	534,000	–	–	534,000	14.07.2010	–	14.07.2013–13.01.2016	0.435	0.435	–
	–	178,000	–	–	178,000	14.07.2010	–	14.07.2014–13.01.2016	0.435	0.435	–
	–	356,000	–	–	356,000	14.07.2010	–	14.07.2015–13.01.2016	0.435	0.435	–

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

(I) INTERESTS AND SHORT POSITIONS IN THE COMPANY (Continued)

(2) Interests in share options relating to ordinary shares (long positions) (Continued)

Notes to the above share options granted pursuant to the share option scheme adopted by the Company on 24 November 2008 ("2008 Scheme"):

(a) The option period of all the share options is 5.5 years from the date of grant.

(b) Any share option is only exercisable during the option period after it has become vested.

(c) The normal vesting scale of the share options is as follows:

Date	Percentage vesting
The date two years after the date of grant	40%
The date three years after the date of grant	30%
The date four years after the date of grant	10%
The date five years after the date of grant	20%

(d) The vesting of the share options is further subject to the achievement of such performance targets as determined by the board of Directors (the "Board") upon grant and stated in the offer of grant.

(e) The leaver vesting scale of the share options that would apply in the event of the grantee ceasing to be an eligible person under certain special circumstances (less the percentage which has already vested under the normal vesting scale or lapsed) is as follows:

Date on which event occurs	Percentage vesting
On or before the date which is four months after the date of grant	0%
After the date which is four months after but before the date which is one year after the date of grant	10%
On or after the date which is one year after but before the date which is two years after the date of grant	25%
On or after the date which is two years after but before the date which is three years after the date of grant	40%
On or after the date which is three years after but before the date which is four years after the date of grant	70%
On or after the date which is four years after the date of grant	80%
	The remaining 20% also vests upon passing the overall performance appraisal for those four years

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

** The price of the Company's ordinary shares disclosed as "at date immediately before date of grant" of the share options is the closing price on the Hong Kong Stock Exchange on the business day prior to which the options were granted.

The price of the Company's ordinary shares disclosed as "immediately before the exercise date" of the share options is the weighted average of the Hong Kong Stock Exchange closing prices immediately before the dates on which the options were exercised by each of the directors or all other participants as an aggregate whole.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

(II) INTERESTS AND SHORT POSITIONS IN GUANGDONG INVESTMENT LIMITED ("GDI")

(1) Interests in ordinary shares

Name of Director	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate Percentage of interests held *(Note)*
Ho Lam Lai Ping, Theresa	Personal	1,760,000	Long position	0.03%

Note: The approximate percentage of interests held was calculated on the basis of 6,230,898,071 ordinary shares of GDI in issue as at 31 December 2010.

(2) Interests in share options relating to ordinary shares (long positions)

	Number of share options										
Name of Director	At 1 January 2010	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2010	Date of grant of share options *(dd.mm.yyyy)*	Total consideration paid for share options *HK$*	Exercise period of share options (both days inclusive) *(dd.mm.yyyy)*	Exercise price of share options* *HK$ (per share)*	Price of ordinary shares at date immediately before date of grant** *HK$ (per share)*	Price of ordinary shares immediately before the exercise date** *HK$ (per share)*
Ho Lam Lai Ping, Theresa	960,000	–	960,000	–	–	24.10.2008	–	24.10.2010–23.04.2014	1.88	1.73	4.03
	720,000	–	–	–	720,000	24.10.2008	–	24.10.2011–23.04.2014	1.88	1.73	–
	240,000	–	–	–	240,000	24.10.2008	–	24.10.2012–23.04.2014	1.88	1.73	–
	480,000	–	–	–	480,000	24.10.2008	–	24.10.2013–23.04.2014	1.88	1.73	–

Notes to the above share options granted pursuant to the share option scheme adopted by GDI:

(a) The option period of all the share options is 5.5 years from the date of grant.

(b) Any share option is only exercisable during the option period after it has become vested.

(c) The normal vesting scale of the share options is as follows:

Date	Percentage vesting
The date two years after the date of grant	40%
The date three years after the date of grant	30%
The date four years after the date of grant	10%
The date five years after the date of grant	20%

(d) The vesting of the share options is further subject to the achievement of such performance targets as determined by the board of directors of GDI upon grant and stated in the offer of grant.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

(II) INTERESTS AND SHORT POSITIONS IN GUANGDONG INVESTMENT LIMITED ("GDI") (Continued)

(2) Interests in share options relating to ordinary shares (long positions) (Continued)

(e) The leaver vesting scale of the share options that would apply in the event of the grantee ceasing to be an eligible person under certain special circumstances (less the percentage which has already vested under the normal vesting scale or lapsed) is as follows:

Date on which event occurs	Percentage vesting
On or before the date which is four months after the date of grant	0%
After the date which is four months after but before the date which is one year after the date of grant	10%
On or after the date which is one year after but before the date which is two years after the date of grant	25%
On or after the date which is two years after but before the date which is three years after the date of grant	40%
On or after the date which is three years after but before the date which is four years after the date of grant	70%
On or after the date which is four years after the date of grant	80% The remaining 20% also vests upon passing the overall performance appraisal for those four years

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the share capital of GDI.

** The price of the ordinary shares of GDI disclosed as "at date immediately before date of grant" of the share options is the closing price on the Hong Kong Stock Exchange on the business day prior to which the options were granted.

The price of the ordinary shares of GDI disclosed as "immediately before the exercise date" of the share options is the weighted average of the Hong Kong Stock Exchange closing prices immediately before the dates on which the options were exercised by each of the directors of GDI or all other participants as an aggregate whole.

(III) INTERESTS AND SHORT POSITIONS IN KINGWAY BREWERY HOLDINGS LIMITED ("KINGWAY")

Interests in ordinary shares

Name of Director	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of interests held *(Note)*
Ho Lam Lai Ping, Theresa	Personal	98,000	Long position	0.01%

Note: The approximate percentage of interests held was calculated on basis of 1,711,536,850 ordinary shares of Kingway in issue as at 31 December 2010.

Report of the Directors

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES (CONTINUED)

Save as disclosed above, as at 31 December 2010, to the knowledge of the Company, none of the directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be: (i) notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executive are taken or deemed to have under such provisions of the SFO); (ii) entered in the register kept by the Company pursuant to Section 352 of the SFO; or (iii) notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2010, so far as is known to any Directors or the chief executive of the Company, the following persons (other than a Director or the chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO:

Name of Shareholder	Capacity/nature of interests	Number of ordinary shares held	Long/short position	Approximate percentage of the Company's issued ordinary share capital
廣東粵海控股有限公司 (Guangdong Holdings Limited) *(Note)*	Interests of controlled corporation	383,820,000	Long position	71.39%
GDH Limited	Beneficial owner	383,820,000	Long position	71.39%

Note: The attributable interest which 廣東粵海控股有限公司 (Guangdong Holdings Limited) has in the Company is held through its 100% direct interest in GDH Limited.

Save as disclosed above, as at 31 December 2010, so far as is known to any Director or the chief executive of the Company, there were no other persons (other than a Director or the chief executive of the Company) who had, or were deemed or taken to have interests or short positions in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company pursuant to section 336 of the SFO.

Report of the Directors

SHARE OPTIONS OF THE COMPANY

As at 31 December 2010, save as disclosed in the section of "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES" of this report, certain eligible persons (other than Directors) had the following interests in rights to subscribe for shares of the Company granted under the 2008 Scheme. Each option gives the holder the right to subscribe for one share of par value HK$0.10 each of the Company. Further details are set out in note 28 to the financial statements.

	Number of share options										
Category of Participants	At 1 January 2010	Granted during the year	Exercised during the year	Cancelled/ lapsed during the year	At 31 December 2010	Date of grant of share options *(dd.mm.yyyy)*	Total consideration paid for share options *HK$*	Exercise period of share options (both days inclusive) *(dd.mm.yyyy)*	Exercise price of share options* *HK$* *(per share)*	Price of ordinary shares at date immediately before date of grant** *HK$* *(per share)*	Price of ordinary shares immediately before the exercise date** *HK$* *(per share)*
Senior Management	260,000	–	–	130,000	130,000	24.11.2008	–	24.11.2010–23.05.2014	0.278	0.27	–
	195,000	–	–	–	195,000	24.11.2008	–	24.11.2011–23.05.2014	0.278	0.27	–
	65,000	–	–	–	65,000	24.11.2008	–	24.11.2012–23.05.2014	0.278	0.27	–
	130,000	–	–	–	130,000	24.11.2008	–	24.11.2013–23.05.2014	0.278	0.27	–
	–	1,192,000	–	–	1,192,000	14.07.2010	–	14.07.2012–13.01.2016	0.435	0.435	–
	–	894,000	–	–	894,000	14.07.2010	–	14.07.2013–13.01.2016	0.435	0.435	–
	–	298,000	–	–	298,000	14.07.2010	–	14.07.2014–13.01.2016	0.435	0.435	–
	–	596,000	–	–	596,000	14.07.2010	–	14.07.2015–13.01.2016	0.435	0.435	–
Employee	–	228,000	–	–	228,000	14.07.2010	–	14.07.2012–13.01.2016	0.435	0.435	–
	–	171,000	–	–	171,000	14.07.2010	–	14.07.2013–13.01.2016	0.435	0.435	–
	–	57,000	–	–	57,000	14.07.2010	–	14.07.2014–13.01.2016	0.435	0.435	–
	–	114,000	–	–	114,000	14.07.2010	–	14.07.2015–13.01.2016	0.435	0.435	–
Other participant	–	816,000	–	–	816,000	14.07.2010	–	14.07.2012–13.01.2016	0.435	0.435	–
	–	612,000	–	–	612,000	14.07.2010	–	14.07.2013–13.01.2016	0.435	0.435	–
	–	204,000	–	–	204,000	14.07.2010	–	14.07.2014–13.01.2016	0.435	0.435	–
	–	408,000	–	–	408,000	14.07.2010	–	14.07.2015–13.01.2016	0.435	0.435	–

Notes: Additional information regarding the above share options granted under the 2008 Scheme is set out in the notes under "Interests in share options relating to ordinary shares (long positions)" in the "INTERESTS AND SHORT POSITIONS IN THE COMPANY" section of this report on page 17.

SHARE OPTIONS OF THE COMPANY (CONTINUED)

In assessing the theoretical aggregate value of the share options granted during the year, the binomial model has been used.

Share options granted during the year ended 31 December 2010:

Date of Grant: 14.07.2010

Exercise Price: HK$0.435 per share

Vesting period *(dd.mm.yyyy)*	**Exercise period** *(dd.mm.yyyy)*	**Number of options at 14.07.2010**	**Options value at 14.07.2010** *HK$* *(Note (b))*
14.07.2010–13.07.2012	14.07.2012–13.01.2016	7,224,000	1,545,000
14.07.2010–13.07.2013	14.07.2013–13.01.2016	5,418,000	1,279,000
14.07.2010–13.07.2014	14.07.2014–13.01.2016	1,806,000	455,000
14.07.2010–13.07.2015	14.07.2015–13.01.2016	3,612,000	946,000

Notes:

(a) The closing price of the ordinary shares of the Company immediately before the date on which the options were granted was HK$0.435.

(b) According to the binomial model[△], the theoretical aggregate value of the options was estimated at HK$4,225,000 as at 14 July 2010 (when the options were granted) with the following variables and assumptions:

Risk Free Rate:	1.64%, being the approximate yield of the 5.5-year exchange fund note traded on 14 July 2010
Expected Volatility:	70.261%, being the annualised volatility of the closing price of the ordinary shares of the Company from 14 January 2005 to 14 July 2010
Expected Dividend Yield:	Nil, being the approximate yield of the shares of the Company over the period from 1 January 2009 to 31 December 2009
Expected Life of the Options:	5.5 years
Assumptions:	There is no material difference between the expected volatility over the whole life of the options and the historical volatility of the ordinary shares of the Company over the period from 14 January 2005 to 14 July 2010.

(c) Information regarding the treatment of options that do not ultimately vest and are cancelled prior to their expiry is set out in note 28 to the financial statements.

△ The binomial model (the "Model") is one of the option pricing models to estimate the fair value of an option. It should be noted that the Model requires the input of highly subjective assumptions, including the volatility of share price. Because changes in subjective input assumptions can materially affect the fair value estimate, in the directors' opinion, the fair value of the share options derived from the Model should not be interpreted as the market or actual value of option.

Report of the Directors

SIGNIFICANT CONTRACTS WITH CONTROLLING SHAREHOLDER

Save as disclosed in notes 22, 23, 25 and 33 to the financial statements, the Company and the controlling shareholder of the Company had not entered into any other contracts of significance during the year.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES" and "SHARE OPTIONS OF THE COMPANY" of this report, and in note 28 to the financial statements, at no time during the year was the Company, any subsidiaries or holding company of the Company or any subsidiaries of the Company's holding company, a party to any arrangements to enable the Directors or their spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CONNECTED TRANSACTIONS

Details of the connected transactions are disclosed in note 33 to the financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2010, the amount of purchases attributable to the Group's largest supplier represented 49% of the Group's total purchases; and the aggregate amount of purchases (excluding the purchases of items of a capital nature) attributable to the Group's five largest suppliers represented 70% of the Group's total purchases. In addition, the amount of turnover attributable to the Group's largest customer represented 20% of the Group's total turnover; and the aggregate amount of the turnover attributable to the Group's five largest customers represented 40% of the Group's total turnover. None of the Directors or their associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest suppliers or customers.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules based on the information that is publicly available to the Company and within the knowledge of the Directors.

AUDITORS

A resolution will be proposed at the forthcoming annual general meeting for the reappointment of Messrs. Ernst & Young as the auditors of the Company.

By order of the Board
Chen Hong
Chairman

Hong Kong, 11 March 2011

Corporate Governance Report

The Group recognizes the importance of achieving and monitoring the highest standard of corporate governance consistent with the needs and requirements of its businesses and the best interest of all of its stakeholders and its fully committed to doing so. It is also with these objectives in mind that the Group has applied the principles of the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

In the opinion of the directors of the Company (the "Directors"), the Company has complied with the code provisions set out in the CG Code throughout the year ended 31 December 2010 except for the details stated in the section headed 'CHAIRMAN AND MANAGING DIRECTOR" on page 25.

BOARD OF DIRECTORS

The board of Directors (the "Board") comprises two Executive Directors, being Mr. Chen Hong and Mr. Sun Jun, three Non-Executive Directors, being Mr. Xiong Guangyang, Mrs. Ho Lam Lai Ping, Theresa, and Mr. Qiao Jiankang and three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat. Mr. Sun Jun was appointed as an Executive Director and the Managing Director on 5 February 2010.

The Board is responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. The management is delegated the authority and responsibility by the Board for the day-to-day management of the Group. Major corporate matters that are specifically delegated by the Board to the management include the preparation of interim and annual reports and announcements for Board approval before publishing, execution of business strategies and initiatives adopted by the Board, implementation of adequate systems of internal controls and risk management procedures, and compliance with relevant statutory and regulatory requirements and rules and regulations.

Seven Board meetings were held during the financial year ended 31 December 2010. The attendances of the Directors at the Board meetings are as follows:

Directors		**Number of Attendance**
Chen Hong		7/7
Sun Jun	*(appointed on 5 February 2010)*	4/4
Xiong Guangyang		7/7
Ho Lam Lai Ping, Theresa		7/7
Qiao Jiankang		7/7
Fung Lak		7/7
Choi Kam Fai, Thomas		7/7
Chan Cheong Tat		7/7

The Company has received confirmation of independence from the three Independent Non-Executive Directors, namely Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat, in accordance with Rule 3.13 of the Listing Rules. The Company has assessed their independence and concluded that all the Independent Non-Executive Directors are independent within the definition of the Listing Rules.

The Board members do not have any financial, business, family or other material/relevant relationships with each other. Such balanced Board composition ensures that strong independence exists across the Board. The biographies of the Directors are set out in pages 9 to 11 of this annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

Corporate Governance Report

CHAIRMAN AND MANAGING DIRECTOR

Under the CG Code, there should be a clear division of responsibilities for the roles of chairman and chief executive officer and these two roles should be performed by two persons (the Company regards that the term "chief executive officer" has the same meaning as the Managing Director of the Company). On 20 September 2009, Mr. Ren Yingguo resigned as an Executive Director and the Managing Director of the Company. The Chairman of the Company took up the duties of the Managing Director temporarily while the Company was in the process of identifying the new Managing Director. Such temporary arrangement ended once Mr. Sun Jun was appointed as the new Managing Director on 5 February 2010.

Currently, the Chairman of the Board is Mr. Chen Hong and the Managing Director is Mr. Sun Jun. Their roles are clearly defined and segregated to ensure independence and proper checks and balances. Mr. Chen Hong as the Chairman has executive responsibilities, provides leadership to the Board and ensures the proper and effective functioning of the Board in the discharge of its responsibilities. Mr. Sun Jun as the Managing Director is accountable to the Board for the overall implementation of the Company's strategies and the co-ordination of overall business operations.

NON-EXECUTIVE DIRECTORS

All Directors, including Non-Executive Directors, appointed to fill a causal vacancy or as an addition to the existing Board, shall hold office only until the first general meeting after his appointment and shall then be eligible for re-election. Moreover, each Non-Executive Directors will hold office for a specific term expiring on the earlier of either (i) the conclusion of the annual general meeting of the Company in the year of the third anniversary of the appointment or re-election of that Director, or (ii) the expiration of the period within which the annual general meeting of the Company is required to be held in the year of the third anniversary of the appointment or re-election of that Director and in any event, subject to earlier determination in accordance with the Articles of Association of the Company and/or applicable laws and regulations.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 of the Listing Rules as the code of conduct regarding Director's securities transactions. All Directors have confirmed, upon specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the year.

REMUNERATION COMMITTEE

The Company established a remuneration committee (the "Remuneration Committee") in June 2005. The authorities and duties of the Remuneration Committee are as follows:

Authority

1. The Remuneration Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Remuneration Committee.

Corporate Governance Report

REMUNERATION COMMITTEE (CONTINUED)

Authority (Continued)

2. The Remuneration Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

1. To make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

2. To have the delegated responsibilities to determine the specific remuneration packages of all Executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their officer or appointment. Factors which should be taken into consideration include but are not limited to salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the group and desirability of performance-based remuneration.

3. To review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time.

4. To review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company.

5. To review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate.

6. To make recommendations to the Board on the remuneration of Non-Executive Directors.

7. To ensure that no Director or any of his associates is involved in deciding his own remuneration.

8. To consult the Chairman and/or the Managing Director about their proposals relating to the remuneration of Executive Directors and senior management and have access to professional advice if considered necessary.

9. To consider other topics as defined by the Board.

The Remuneration Committee comprises three Independent Non-Executive Directors, being Mr. Choi Kam Fai, Thomas, Mr. Fung Lak and Mr. Chan Cheong Tat. Mr. Choi Kam Fai, Thomas is the Chairman of the Remuneration Committee.

REMUNERATION COMMITTEE (CONTINUED)

During the financial year ended 31 December 2010, the Remuneration Committee held five meetings to review and approve the annual remuneration packages and the 2009 performance bonuses for the Executive Directors and senior management of the Company. The attendance of each member of the Remuneration Committee is set out as follows:

Directors	Number of Attendance
Choi Kam Fai, Thomas	5/5
Fung Lak	5/5
Chan Cheong Tat	5/5

Details of the amount of Directors' remuneration are set out in note 8 to the financial statements.

NOMINATION COMMITTEE

The Company established a nomination committee (the "Nomination Committee") in June 2005. The authorities and duties of the Nomination Committee are as follows:

Authority

1. The Nomination Committee is authorized by the Board to investigate any activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Nomination Committee.

2. The Nomination Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

1. To review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes.

2. To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships.

3. To assess the independence of Independent Non-Executive Directors.

4. To make recommendations to the Board on relevant matters relating to the appointment or reappointment of Directors and succession planning for Directors in particular the Chairman and the Managing Director.

5. To consider other topics as defined by the Board.

The Nomination Committee comprises one Executive Director, being Mr. Chen Hong and three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat. Mr. Chen Hong is the Chairman of the Nomination Committee.

NOMINATION COMMITTEE (CONTINUED)

The Nomination Committee identified suitable individual qualified to become Board members and makes recommendation to the Board on relevant matters relating to the appointment or reappointment of directors if necessary, in particular, candidates who can add value to the management through their contributions in the relevant strategic business areas and which appointments will result on the constitution of strong and diverse Board.

During the financial year ended 31 December 2010, the Nomination Committee held two meetings (i) to recommend to the Board the appointment of Mr. Sun Jun as an Executive Director and the Managing Director of the Company; (ii) to review the structure, size and composition of the Board; and (iii) to recommend to the Board the proposed re-election of Mr. Chen Hong, Mr. Sun Jun, Mr. Qiao Jiankang and Mr. Fung Lak as Directors at 2010 annual general meeting of the Company. The attendance of each member of the Nomination Committee is set out as follows:

Directors	Number of Attendance
Chen Hong	2/2
Fung Lak	2/2
Choi Kam Fai, Thomas	2/2
Chan Cheong Tat	2/2

AUDIT COMMITTEE

An audit committee of the Company (the "Audit Committee") was established in September 1998. The authorities and duties of the Audit Committee are as follows:

Authority

1. The Audit Committee is authorized by the Board to investigate activity within its terms of reference. It is authorized to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Audit Committee.

2. The Audit Committee is authorized by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

Duties

1. To be primarily responsible for making recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor.

2. To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences.

Corporate Governance Report

AUDIT COMMITTEE (CONTINUED)

Duties (Continued)

3. To develop and implement policy on the engagement of an external auditor to supply non-audit services. For this purpose, external auditor shall include any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.

4. To monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them. In this regard, in reviewing the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports before submission to the Board, the Audit Committee should focus particularly on:

   i. any changes in accounting policies and practices;

   ii. major judgmental areas;

   iii. significant adjustments resulting from audit;

   iv. the going concern assumptions and any qualifications;

   v. compliance with accounting standards; and

   vi. compliance with the Listing Rules and other legal requirements in relation to financial reporting.

5. In regard to (4) above:

   i. members of the Audit Committee must liaise with the Company's Board and senior management and the Audit Committee must meet, at least once a year, with the Company's auditor; and

   ii. the Audit Committee should consider any significant or unusual items that are, or may need to be, reflected in such reports and accounts and must give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditor.

6. To review the Company's financial controls, internal controls and risk management systems.

7. To discuss with the management the system of internal control and ensure that management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget.

8. To consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response.

AUDIT COMMITTEE (CONTINUED)

Duties (Continued)

9. Where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor the effectiveness of the internal audit function.

10. To review the Group's financial and accounting policies and practices.

11. To review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response.

12. To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter.

13. To report to the Board on the matters set out in the code provisions in relation to Audit Committee under Appendix 14 of the Listing Rules.

14. To consider other topics, as defined by the Board.

The Audit Committee comprises three Independent Non-Executive Directors, being Mr. Fung Lak, Mr. Choi Kam Fai, Thomas and Mr. Chan Cheong Tat who all possess the required experience and knowledge in the accounting profession. Mr. Fung Lak is the Chairman of the Audit Committee.

During the financial year ended 31 December 2010, the Audit Committee held four meetings. It reviewed the 2009 annual results and the 2010 interim results of the Company before their submission to the Board and monitored the integrity of such financial statements. The Audit Committee oversees matters concerning the external auditors including making recommendations to the Board regarding the appointment of the external auditors, reviewing the scope of their audit and work and approving their fees. In addition to its four meetings as aforesaid, the Audit Committee also had a private meeting with the external auditors without the presence of the management to discuss any area of concern. The Audit Committee further ensures that the management has put in place an effective system of internal control and maintains an overview of the Group's risk assessment, control and management processes. It reviews the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function and their training programmes and budget. In addition, it reviews the internal audit schedules of the Group, considers the Group's internal audit reports and monitors the effectiveness of the internal audit function. The attendance of each member of the Audit Committee is set out as follows:

Directors	Number of Attendance
Fung Lak	4/4
Choi Kam Fai, Thomas	4/4
Chan Cheong Tat	4/4

Corporate Governance Report

AUDITORS' REMUNERATION

During the year under review, the remuneration paid/payable to the Company's auditors, Messrs Ernst & Young, is set out as follows:

Services rendered	**Fee paid/payable** *HK$'000*
Audit of Final Results	1,128
Review of Interim Results	270

ACCOUNTABILITY AND AUDIT

The Board is responsible for overseeing the preparation of financial statements for the year ended 31 December 2010, which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that financial year. In preparing the financial statements for the year ended 31 December 2010, the Board has selected appropriate accounting policies, applied them consistently in accordance with the Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards which are pertinent to its operations and relevant to the financial statements and, made judgements and estimates that are prudent and reasonable, and have prepared the financial statements on the going concern basis.

The Company aims at presenting a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. The annual and interim results of the Company are announced in a timely manner within the limit of 3 months and 2 months respectively after the end of the relevant periods in accordance with the Listing Rules.

INTERNAL CONTROL

The Board is responsible for the Group's system of internal controls and its effectiveness. The internal control system has been designed to mitigate the Group's risk exposure; to facilitate the effectiveness and efficiency of operations; to safeguard the assets against loss and misappropriation; to maintain proper accounting records for producing reliable financial information and ensuring compliance with applicable laws and regulations.

The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss, and to manage rather than eliminate risks of failure in the Group's operational systems and in the achievement of the Group's business objectives.

The internal control system of the Group comprises a well-established organisational structure and comprehensive policies and standards. The Board has clearly defined the authorities and key responsibilities of each operational unit to ensure adequate checks and balances. The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and involving in the design, operation and monitoring of suitable internal controls to mitigate and control these risks. The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls include the following:

The Audit Committee is established to, inter alia, review internal control issues identified by the internal audit department, external auditors, regulatory authorities and management, and evaluate the adequacy and effectiveness of the Group's risk management and internal control systems.

Corporate Governance Report

INTERNAL CONTROL (CONTINUED)

The internal audit department monitors compliance with policies and procedures and the effectiveness of the internal control systems, and highlight significant findings in respect of any non compliance. It plays an important role in the Group's internal control framework, and provides objective assurance to the Board that a sound internal control system is maintained and operated in compliance with the established processes and standards by performing periodic checking. Using a risk-based approach, the internal audit department plans its internal audit schedules annually with audit resources being focused on higher risk areas. To preserve the audit independence, the head of internal audit department of the Company reports directly to the Board.

The Board has conducted an annual review of the effectiveness of the Group's system of internal control covering all material controls, including financial, operational and compliance controls and risk management systems. The Board is satisfied that the system of internal controls in place for the year under review and up to the date of issuance of the annual report and accounts is reasonably effective and adequate.

Independent Auditors' Report

ERNST & YOUNG
安 永

To the shareholders of **Guangdong Tannery Limited**
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Guangdong Tannery Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 35 to 100, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18/F, Two International Finance Centre
8 Finance Street, Central
Hong Kong

11 March 2011

Consolidated Income Statement

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
REVENUE	5	**520,737**	467,259
Cost of sales		**(488,857)**	(417,795)
Gross profit		**31,880**	49,464
Other income and gains	5	**12,561**	10,256
Selling and distribution costs		**(2,192)**	(2,505)
Administrative expenses		**(23,188)**	(24,131)
Finance costs	6	**(4,781)**	(6,731)
PROFIT BEFORE TAX	6	**14,280**	26,353
Income tax expense	7	**(8,068)**	(11,653)
PROFIT FOR THE YEAR	10	**6,212**	14,700
EARNINGS PER SHARE	11		
– Basic		**HK1.16 cents**	HK2.73 cents
– Diluted		**HK1.15 cents**	HK2.73 cents

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
PROFIT FOR THE YEAR		**6,212**	14,700
OTHER COMPREHENSIVE INCOME			
Surplus/(deficit) on revaluation of buildings	12	**123**	(4)
Deferred tax	26	**(31)**	1
		92	(3)
Exchange differences on translation of foreign operations		**15,026**	(1,051)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**15,118**	(1,054)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**21,330**	13,646

Consolidated Balance Sheet

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**103,519**	90,423
Investment property	13	**–**	1,990
Prepaid land lease payments	14	**8,133**	7,963
Total non-current assets		**111,652**	100,376
CURRENT ASSETS			
Inventories	16	**151,878**	106,373
Receivables, prepayments and deposits	17	**168,121**	165,435
Tax recoverable		**514**	–
Pledged deposits	18	**32,314**	1,353
Restricted bank balances	18	**8,226**	6,246
Cash and cash equivalents	18	**107,718**	157,014
Total current assets		**468,771**	436,421
CURRENT LIABILITIES			
Trade payables	19	**46,539**	54,596
Other payables and accruals		**43,777**	49,021
Interest-bearing bank and other borrowings	20	**39,011**	–
Due to a PRC joint venture partner	21	**1,131**	1,131
Loans from the immediate holding company	20, 22	**87,779**	–
Provision	24	**3,748**	3,622
Convertible notes	20, 25	**–**	63,327
Tax payable		**–**	6,235
Total current liabilities		**221,985**	177,932
NET CURRENT ASSETS		**246,786**	258,489
TOTAL ASSETS LESS CURRENT LIABILITIES		**358,438**	358,865

Consolidated Balance Sheet

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	20, 22	–	22,779
Loan from a fellow subsidiary	20, 23	54,600	54,600
Deferred tax liabilities	26	717	462
Total non-current liabilities		55,317	77,841
Net assets		303,121	281,024
EQUITY			
Issued capital	27	53,762	53,762
Reserves	29(a)	249,359	227,262
Total equity		303,121	281,024

Chen Hong
Director

Sun Jun
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Notes	Issued capital HK$'000	Share premium account HK$'000	Equity component of convertible notes HK$'000	General reserve fund HK$'000 (Note 29(a))	Reserve funds HK$'000 (Note 29(a))	Share option reserve HK$'000	Capital redemption reserve HK$'000	Exchange translation reserve HK$'000	Property revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009		53,750	413,968	5,545	167,746	9,449	35	445	59,061	1,605	(444,368)	267,236
Profit for the year		–	–	–	–	–	–	–	–	–	14,700	14,700
Other comprehensive income for the year:												
Changes in fair value of properties, net of tax		–	–	–	–	–	–	–	–	(3)	–	(3)
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	(1,051)	–	–	(1,051)
Total comprehensive income for the year		–	–	–	–	–	–	–	(1,051)	(3)	14,700	13,646
Issue of shares	27	12	27	–	–	–	(6)	–	–	–	–	33
Equity-settled share option arrangements	28	–	–	–	–	–	109	–	–	–	–	109
Transfer from retained profits of a subsidiary established in the PRC		–	–	–	–	2,671	–	–	–	–	(2,671)	–
At 31 December 2009 and 1 January 2010		53,762	413,995*	5,545*	167,746*	12,120*	138*	445*	58,010*	1,602*	(432,339)*	281,024
Profit for the year		–	–	–	–	–	–	–	–	–	6,212	6,212
Other comprehensive income for the year:												
Changes in fair value of properties, net of tax		–	–	–	–	–	–	–	–	92	–	92
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	15,026	–	–	15,026
Total comprehensive income for the year		–	–	–	–	–	–	–	15,026	92	6,212	21,330
Equity-settled share option arrangements	28	–	–	–	–	–	767	–	–	–	–	767
Transfer from retained profits of a subsidiary established in the PRC		–	–	–	–	2,024	–	–	–	–	(2,024)	–
At 31 December 2010		53,762	413,995*	5,545*	167,746*	14,144*	905*	445*	73,036*	1,694*	(428,151)*	303,121

* These reserve accounts comprise the consolidated reserves of HK$249,359,000 (2009: HK$227,262,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**14,280**	26,353
Adjustments for:			
Finance costs	6	**4,781**	6,731
Interest income	5	**(937)**	(1,103)
Depreciation	6	**8,277**	7,564
Provision for inventories	6	**345**	4,043
Loss/(gain) on disposal of items of property, plant and equipment	6	**(365)**	469
Gain on disposal of an investment property	5	**(1,570)**	–
Impairment of trade and other receivables	6	**258**	990
Fair value loss on an investment property	6	**–**	130
Deficit/(surplus) on revaluation of buildings	6	**(895)**	2,067
Recognition of prepaid land lease payments	6	**172**	138
Write-off of items of property, plant and equipment	6	**–**	78
Equity-settled share option expense	28	**767**	109
		25,113	47,569
Decrease/(increase) in inventories		**(41,145)**	99,349
Decrease/(increase) in receivables, prepayments and deposits		**2,697**	(28,172)
Increase/(decrease) in trade payables		**(9,780)**	11,751
Increase/(decrease) in other payables and accruals		**(6,435)**	25,782
Increase/(decrease) in trust receipt loans		**38,092**	(6,801)
Cash generated from/(used in) operations		**8,542**	149,478
Interest received		**937**	1,103
Interest paid		**(2,776)**	(3,330)
Tax paid		**(14,637)**	(6,948)
Net cash flows from operating activities		**(7,934)**	140,303
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment	12	**(17,732)**	(36,095)
Purchases of prepaid land lease payments	14	**(69)**	(2,213)
Increase in restricted bank balances		**(1,721)**	(6,246)
Increase/(decrease) in pledged deposits		**(30,185)**	9,427
Proceeds from disposal of an investment property		**3,560**	–
Proceeds from disposal of items of property, plant and equipment		**1,005**	–
Net cash flows used in investing activities		**(45,142)**	(35,127)

Consolidated Cash Flow Statement

Year ended 31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of convertible notes	25	(65,332)	–
Increase/(decrease) in loans from the immediate holding company		65,000	(44,339)
Proceeds from issue of shares	27	–	33
Net cash flows used in financing activities		(332)	(44,306)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(53,408)	60,870
Cash and cash equivalents at beginning of year		157,014	97,653
Effect of foreign exchange rate changes, net		4,112	(1,509)
CASH AND CASH EQUIVALENTS AT END OF YEAR		107,718	157,014
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents	18	107,718	157,014

Balance Sheet

31 December 2010

	Notes	2010 HK$'000	2009 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	12	**22**	28
Interests in subsidiaries	15	**328,739**	320,605
Total non-current assets		**328,761**	320,633
CURRENT ASSETS			
Prepayments and deposits		**161**	160
Cash and bank balances	18	**1,956**	9,689
Total current assets		**2,117**	9,849
CURRENT LIABILITIES			
Other payables and accruals		**1,759**	1,090
Loans from the immediate holding company	20, 22	**87,779**	–
Convertible notes	20, 25	**–**	63,327
Total current liabilities		**89,538**	64,417
NET CURRENT LIABILITIES		**(87,421)**	(54,568)
TOTAL ASSETS LESS CURRENT LIABILITIES		**241,340**	266,065
NON-CURRENT LIABILITIES			
Loans from the immediate holding company	20, 22	**–**	22,779
Loans from subsidiaries	15	**–**	5,123
Total non-current liabilities		**–**	27,902
Net assets		**241,340**	238,163
EQUITY			
Issued capital	27	**53,762**	53,762
Reserves	29(b)	**187,578**	184,401
Total equity		**241,340**	238,163

Chen Hong
Director

Sun Jun
Director

Notes to Financial Statements

31 December 2010

1. CORPORATE INFORMATION

Guangdong Tannery Limited is a limited liability company incorporated in Hong Kong. The registered office of the Company is located at 29/F, Guangdong Investment Tower, 148 Connaught Road Central, Hong Kong.

During the year, the Group principally engaged in the processing and sale of semi-finished and finished leather.

In the opinion of the directors, the ultimate holding company of the Company is Guangdong Holdings Limited (廣東粵海控股有限公司), a company established in the People's Republic of China (the "PRC" or "Mainland China").

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for an investment property and buildings, which have been measured at fair value as further explained in note 2.4 to the financial statements. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

HKFRS 1 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to HKAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments included in *Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a Subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	*Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), amendments to HKAS 7 and HKAS 17 included in *Improvements to HKFRSs 2009* and HK Interpretation 4 (Revised in December 2009), the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to HKAS 7 *Statement of Cash Flows*, HKAS 12 *Income Taxes*, HKAS 21 *The Effects of Changes in Foreign Exchange Rates*, HKAS 28 *Investments in Associates* and HKAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to HKFRSs 2009* issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the balance sheet can be classified as a cash flow from investing activities.

- HKAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in HKAS 17.

  Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases* is revised as a consequence of the amendment to HKAS 17 *Leases* included in *Improvements to HKFRSs 2009*. Following this amendment, the scope of HK Interpretation 4 has been expanded to cover all land leases, including those classified as finance leases. As a result, this interpretation is applicable to all leases of property accounted for in accordance with HKAS 16, HKAS 17 and HKAS 40.

  The Group has reassessed its leases in Mainland China, previously classified as operating leases, upon the adoption of the amendments. The classification of leases in Mainland China remained as operating leases.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 1 Amendment	Amendment to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters* [2]
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters* [4]
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
HKFRS 9	*Financial Instruments* [6]
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [5]
HKAS 24 (Revised)	*Related Party Disclosures* [3]
HKAS 32 Amendment	Amendment to HKAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
HK(IFRIC)-Int 14 Amendments	Amendments to HK(IFRIC)-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
HK(IFRIC)-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the HKICPA has issued *Improvements to HKFRSs 2010* which sets out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to HKFRS 3 and HKAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to HKFRS 1, HKFRS 7, HKAS 1, HKAS 34 and HK(IFRIC)-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that except for the adoption of HKAS 24 (Revised) and HKAS 27 (Revised), these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as

(a) a subsidiary, if the Group/Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to the joint venture's financial and operating policies;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with HKAS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over the joint venture.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Valuations are performed frequent enough to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Changes in the values of property, plant and equipment are dealt with as movements in the property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the income statement. Any subsequent revaluation surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the property revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2% to 10%
Leasehold improvements	4% to 20%
Plant and machinery	10% to 12.5%
Electronic equipment	20%
Furniture, fixtures and equipment	15% to 20%
Motor vehicles	15% to 20%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (Continued)

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, machinery and equipment under construction. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including leasehold interest under an operating lease for a property which otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the balance sheet date.

Gains or losses arising from changes in the fair values of investment properties are included in the income statement in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the income statement in the year of the retirement or disposal.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, and loans receivable.

Subsequent measurement

The subsequent measurement of loans and receivables as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the income statement. The loss arising from impairment is recognised in the income statement in other operating expenses.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (Continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost (Continued)

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to administrative expenses in the income statement.

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of HKAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, an amount due to a PRC joint venture partner, and interest-bearing bank and other borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (Continued)

Convertible notes

The component of convertible notes that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible note; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including time deposits, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for staff redundancy payments and compensation to a PRC joint venture partner for early termination of a joint venture agreement are determined based on the relevant employment contracts and the terms of the joint venture agreement.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date, taking into consideration interpretations and practices prevailing in the regions in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with interests in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (Continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with interests in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms; and

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Employee benefits

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Employee benefits (Continued)

Share-based payment transactions (Continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. All cancellations of equity-settled transaction awards are treated equally.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in central pension scheme (the "PRC Scheme") operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the PRC Scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the PRC Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange translation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provision for inventories

Management reviews the condition of inventories of the Group at each balance sheet date and makes provision for obsolete and slow-moving inventory items. Management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. Management reassesses the estimation at each balance sheet date.

Impairment of trade receivables

The Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of the assets. The estimation of the useful life of the asset is based on experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at each balance sheet date, based on changes in circumstances.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The amount of unrecognised tax losses at 31 December 2010 was HK$68,392,000 (2009: HK$61,364,000). Further details are contained in note 26 to the financial statements.

4. OPERATING SEGMENT INFORMATION

No separate analysis of operating segment information is presented by the Group as over 90% of the Group's revenue, results and assets related to the processing and sale of semi-finished and finished leather in Mainland China during the year.

Information about a major customer

Revenue of approximately HK$103,200,000 (2009: HK$45,030,000) was derived from sales to a single customer, which constituted 20% (2009: 10%) of total revenue, during the year ended 31 December 2010.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts and value-added tax, during the year.

An analysis of revenue, other income and gains is as follows:

	2010 ***HK$'000***	2009 *HK$'000*
Revenue		
Processing and sale of leather	**520,737**	467,259
Other income		
Gross rental income	**97**	367
Interest income	**937**	1,103
Sale of scrap materials	**2,084**	1,651
Others	**6,514**	6,893
	9,632	10,014
Gains		
Surplus on revaluation of buildings	**895**	–
Foreign exchange gain, net	**99**	242
Gain on disposal of an investment property	**1,570**	–
Gain on disposal of items of property, plant and equipment	**365**	–
	2,929	242
	12,561	10,256

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2010 HK$'000	2009 HK$'000
Cost of inventories sold		**488,512**	413,752
Auditors' remuneration		**1,128**	1,085
Depreciation	12	**8,277**	7,564
Interest on:			
Bank loans and discounting bills receivable to banks		**225**	253
Convertible notes		**2,620**	4,016
Loans from the immediate holding company		**917**	1,145
Loan from a fellow subsidiary		**1,019**	1,317
		4,781	6,731
Employee benefit expense (excluding directors' remuneration *(note 8)*):			
Wages and salaries		**26,743**	22,424
Pension scheme contributions (defined contribution schemes)*		**2,694**	2,074
Equity-settled share option expense		**239**	48
		29,676	24,546
Provision for inventories		**345**	4,043
Minimum lease payments under operating leases in respect of land and buildings		**675**	683
Amortisation of prepaid land lease payments	14	**172**	138
Rental income on investment property less direct operating expenses of HK$26,000 (2009: HK$103,000)		**(71)**	(264)
Fair value loss on an investment property	13	**–**	130
Deficit/(surplus) on revaluation of buildings	12	**(895)**	2,067
Write-off of items of property, plant and equipment	12	**–**	78
Loss/(gain) on disposal of items of property, plant and equipment		**(365)**	469
Impairment of trade and other receivables, net	17	**258**	990

* At the balance sheet date, the Group had no forfeited contribution available to reduce its contributions to the pension schemes in future years.

7. INCOME TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the year (2009: Nil). Taxes on profits assessable in Mainland China have been calculated at the rate of tax prevailing in Mainland China in which the Group operates.

	2010	2009
	HK$'000	*HK$'000*
Group:		
Current – Mainland China	**7,844**	12,170
Deferred *(note 26)*	**224**	(517)
Total tax charge for the year	**8,068**	11,653

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rates for the regions in which the Company and the majority of its subsidiaries are domiciled to the tax charge at the effective tax rate is as follows:

Group – 2010

	Hong Kong	**Mainland China**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Profit/(loss) before tax	**(11,959)**	**26,239**	**14,280**
Tax at the statutory tax rate	**(1,973)**	**6,560**	**4,587**
Income not subject to tax	**(430)**	**(344)**	**(774)**
Expenses not deductible for tax	**1,173**	**1,660**	**2,833**
Tax losses not recognised	**1,230**	**192**	**1,422**
Tax charge at the Group's effective rate	**–**	**8,068**	**8,068**

Group – 2009

	Hong Kong	Mainland China	Total
	HK$'000	*HK$'000*	*HK$'000*
Profit/(loss) before tax	(15,975)	42,328	26,353
Tax at the statutory tax rate	(2,636)	10,582	7,946
Income not subject to tax	(314)	(797)	(1,111)
Expenses not deductible for tax	1,508	1,621	3,129
Tax losses utilised from previous periods	–	(60)	(60)
Tax losses not recognised	1,442	307	1,749
Tax charge at the Group's effective rate	–	11,653	11,653

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Fees	**450**	450
Other emoluments:		
Salaries, allowances and benefits in kind	**844**	1,029
Performance related bonuses*	**1,221**	793
Equity-settled share option benefits	**528**	61
Pension scheme contributions	**259**	378
	2,852	2,261
	3,302	2,711

* Certain executive directors of the Company are entitled to bonus payments which are determined as a percentage of the profit after tax of the Group.

In 2010, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Group, further details of which are set out in note 28 to the financial statements. The fair value of such options which has been recognised in the income statement over the vesting period was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2010	2009
	HK$'000	*HK$'000*
Mr. Fung Lak	**150**	150
Mr. Choi Kam Fai, Thomas	**150**	150
Mr. Chan Cheong Tat	**150**	150
	450	450

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil).

8. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors and non-executive directors

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Equity-settled share option benefits	Pension scheme contributions	Total remuneration
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
2010						
Executive directors:						
Mr. Chen Hong	–	573	675	198	246	1,692
Mr. Sun Jun	–	271	546	55	13	885
	–	844	1,221	253	259	2,577
Non-executive directors:						
Mr. Xiong Guangyang	–	–	–	206	–	206
Mrs. Ho Lam Lai Ping, Theresa	–	–	–	–	–	–
Mr. Qiao Jiankang	–	–	–	69	–	69
	–	–	–	275	–	275
	–	844	1,221	528	259	2,852
2009						
Executive directors:						
Mr. Chen Hong	–	128	–	–	19	147
Mr. Zhang Chunting	–	499	497	(5)	201	1,192
Mr. Ren Yingguo	–	402	296	(5)	158	851
	–	1,029	793	(10)	378	2,190
Non-executive directors:						
Mr. Xiong Guangyang	–	–	–	72	–	72
Mr. Zhang Yaping	–	–	–	(1)	–	(1)
Mrs. Ho Lam Lai Ping, Theresa	–	–	–	–	–	–
Mr. Qiao Jiankang	–	–	–	–	–	–
	–	–	–	71	–	71
	–	1,029	793	61	378	2,261

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included two (2009: two) directors, details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining three (2009: three) non-director, highest paid employees for the year are as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Salaries and allowances	**1,427**	1,498
Pension scheme contributions	**34**	41
Equity-settled share option expense	**79**	–
	1,540	1,539

The number of non-director, highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2010	2009
Nil to HK$1,000,000	**3**	3

During the year, share options were granted to a non-director, highest paid employee in respect of his services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

10. PROFIT/(LOSS) FOR THE YEAR

The consolidated profit attributable to equity holders of the Company for the year ended 31 December 2010 includes a profit of HK$2,410,000 (2009: loss of HK$15,616,000) which has been dealt with in the financial statements of the Company (note 29(b)).

11. EARNINGS PER SHARE

The calculation of basic earnings per share amount is based on the profit for the year and the weighted average number of ordinary shares of 537,619,000 (2009: 537,539,918) in issue during the year.

The calculation of diluted earnings per share amount is based on the profit for the year, adjusted to reflect the interest on the convertible notes, where applicable (see below). The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2010 and 2009 in respect of a dilution as the impact of the convertible notes outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

The calculations of basic and diluted earnings per share are based on:

	2010	2009
	HK$'000	*HK$'000*
Earnings		
Profit for the year, used in the basic earnings per share calculation	**6,212**	14,700
Interest on convertible notes	**2,620***	4,016*
Profit for the year, before interest on convertible notes	**8,832**	18,716

	Number of shares	
	2010	2009
Shares		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**537,619,000**	537,539,918
Effect of dilution – weighted average number of ordinary shares:		
Share options	**3,020,316**	313,881
Convertible notes	**19,864,456***	32,368,421*
	560,503,772	570,222,220

* Because the diluted earnings per share amount is increased when taking convertible notes into account, the convertible notes had an anti-dilutive effect on the basic earnings per share for the year and were ignored in the calculation of diluted earnings per share. Therefore, diluted earnings per share amount is based on the profit for the year of HK$6,212,000 and the weighted average number of ordinary shares of 540,639,316 in issue during the year.

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12. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK$'000	Leasehold improve-ments HK$'000	Plant and machinery HK$'000	Electronic equipment HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2010								
At 1 January 2010:								
Cost or valuation	40,379	10,439	77,019	2,342	656	7,548	16,145	154,528
Accumulated depreciation and impairment	–	(6,335)	(50,067)	(1,325)	(629)	(5,749)	–	(64,105)
Net carrying amount	40,379	4,104	26,952	1,017	27	1,799	16,145	90,423
At 1 January 2010, net of accumulated depreciation and impairment	40,379	4,104	26,952	1,017	27	1,799	16,145	90,423
Additions	–	1,523	4,845	165	10	519	10,670	17,732
Disposal	–	–	(609)	–	–	(31)	–	(640)
Surplus on revaluation	1,018	–	–	–	–	–	–	1,018
Depreciation provided during the year	(1,716)	(473)	(5,273)	(298)	(14)	(503)	–	(8,277)
Transfers	1,265	–	5,235	152	–	79	(6,731)	–
Exchange realignment	1,222	234	1,036	37	–	77	657	3,263
At 31 December 2010, net of accumulated depreciation and impairment	42,168	5,388	32,186	1,073	23	1,940	20,741	103,519
At 31 December 2010:								
Cost or valuation	42,168	12,362	84,670	2,745	666	7,999	20,741	171,351
Accumulated depreciation and impairment	–	(6,974)	(52,484)	(1,672)	(643)	(6,059)	–	(67,832)
Net carrying amount	42,168	5,388	32,186	1,073	23	1,940	20,741	103,519
Analysis of cost or valuation:								
At cost	–	12,362	84,670	2,745	666	7,999	20,741	129,183
At 31 December 2010 valuation	42,168	–	–	–	–	–	–	42,168
	42,168	12,362	84,670	2,745	666	7,999	20,741	171,351

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Buildings	Leasehold improve-ments	Plant and machinery	Electronic equipment	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2009								
At 1 January 2009:								
Cost or valuation	7,510	10,430	71,947	1,875	656	6,934	27,668	127,020
Accumulated depreciation and impairment	–	(5,924)	(48,467)	(1,296)	(609)	(6,353)	–	(62,649)
Net carrying amount	7,510	4,506	23,480	579	47	581	27,668	64,371
At 1 January 2009, net of accumulated depreciation and impairment	7,510	4,506	23,480	579	47	581	27,668	64,371
Additions	10,297	–	1,226	164	–	596	23,812	36,095
Disposal	–	–	(432)	(19)	–	(18)	–	(469)
Write-off	–	(3)	–	(2)	–	(73)	–	(78)
Deficit on revaluation	(2,071)	–	–	–	–	–	–	(2,071)
Depreciation provided during the year	(1,216)	(408)	(5,397)	(203)	(20)	(320)	–	(7,564)
Transfers	25,822	–	8,021	496	–	1,030	(35,369)	–
Exchange realignment	37	9	54	2	–	3	34	139
At 31 December 2009, net of accumulated depreciation and impairment	40,379	4,104	26,952	1,017	27	1,799	16,145	90,423
At 31 December 2009:								
Cost or valuation	40,379	10,439	77,019	2,342	656	7,548	16,145	154,528
Accumulated depreciation and impairment	–	(6,335)	(50,067)	(1,325)	(629)	(5,749)	–	(64,105)
Net carrying amount	40,379	4,104	26,952	1,017	27	1,799	16,145	90,423
Analysis of cost or valuation:								
At cost	–	10,439	77,019	2,342	656	7,548	16,145	114,149
At 31 December 2009 valuation	40,379	–	–	–	–	–	–	40,379
	40,379	10,439	77,019	2,342	656	7,548	16,145	154,528

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Company

	Furniture, fixtures and equipment HK$'000
31 December 2010	
At 1 January 2010:	
Cost	**376**
Accumulated depreciation	**(348)**
Net carrying amount	**28**
At 1 January 2010, net of accumulated depreciation	**28**
Additions	**8**
Depreciation provided during the year	**(14)**
At 31 December 2010, net of accumulated depreciation	**22**
At 31 December 2010:	
Cost	**384**
Accumulated depreciation	**(362)**
Net carrying amount	**22**
31 December 2009	
At 1 January 2009:	
Cost	376
Accumulated depreciation	(329)
Net carrying amount	47
At 1 January 2009, net of accumulated depreciation	47
Depreciation provided during the year	(19)
At 31 December 2009, net of accumulated depreciation	28
At 31 December 2009:	
Cost	376
Accumulated depreciation	(348)
Net carrying amount	28

12. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Certain of the Group's buildings were revalued individually at the balance sheet date by Asset Appraisal Limited, independent professionally qualified valuers, at an aggregate open market value of HK$42,168,000 (2009: HK$40,379,000) based on their existing use, with a revaluation surplus of HK$1,018,000 (2009: Net revaluation deficit: HK$2,071,000), consisting of a revaluation surplus of HK$123,000 (2009: Revaluation deficit: HK$4,000) credited to other comprehensive income and a revaluation surplus of HK$895,000 (2009: Revaluation deficit: HK$2,067,000) credited to the income statement (note 6).

Had these buildings of the Group been carried at historical cost less accumulated depreciation and impairment losses, their carrying amounts as at 31 December 2010 would have been approximately HK$39,257,000 (2009: HK$38,494,000).

At 31 December 2009, certain of the plant and machinery of a subsidiary of the Group of HK$14,855,000 were pledged to secure general banking facilities granted to the Group (note 34).

13. INVESTMENT PROPERTY

	2010	2009
	HK$'000	*HK$'000*
Carrying amount at 1 January	**1,990**	2,120
Fair value loss of an investment property	**–**	(130)
Disposal	**(1,990)**	–
Carrying amount at 31 December	**–**	1,990

During the year, the Group disposed of the investment property for a consideration of HK$3,560,000 and resulted in a gain of HK$1,570,000 (note 5). Prior to the disposal, the investment property was leased to third parties under an operating lease, further details of which are included in note 31(a) to the financial statements.

14. PREPAID LAND LEASE PAYMENTS

	Group	
	2010	2009
	HK$'000	*HK$'000*
Carrying amount at 1 January	**8,131**	6,045
Additions	**69**	2,213
Recognised during the year *(note 6)*	**(172)**	(138)
Exchange realignment	**280**	11
Carrying amount at 31 December	**8,308**	8,131
Current portion included in receivables, prepayments and deposits	**(175)**	(168)
Non-current portion	**8,133**	7,963

The Group's leasehold land is held under medium term leases and is situated in Mainland China.

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15. INTERESTS IN SUBSIDIARIES

	Company	
	2010	2009
	HK$'000	*HK$'000*
Unlisted shares, at cost	**220,008**	305,184
Loans to subsidiaries	**259,249**	249,443
	479,257	554,627
Impairments#	**(150,518)**	(234,022)
	328,739	320,605

Impairments were recognised for certain unlisted investments and loans to subsidiaries with a total carrying amount of HK$183,322,000 (before deducting the impairments) (2009: HK$265,724,000) because these subsidiaries had been making losses persistently.

Movements in the impairments of interests in subsidiaries are as follows:

	2010	2009
	HK$'000	*HK$'000*
At 1 January	**234,022**	232,625
Impairment losses recognised	**1,672**	1,397
Impairment losses written off for disposal of a subsidiary	**(85,176)**	–
At 31 December	**150,518**	234,022

The loans to subsidiaries are unsecured, interest-free and are not repayable within one year from 31 December 2010. In the opinion of the Company's directors, these advances are considered as quasi-equity loans to the subsidiaries.

As at 31 December 2009, the loans from subsidiaries of HK$5,123,000 were unsecured, interest-free and were not repayable within one year from 31 December 2009.

15. INTERESTS IN SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct (%)	Indirect (%)	Principal activities
Xuzhou Gangwei Leather Co., Ltd.+	PRC/Mainland China	RMB18,000,000	100	–	Processing of cowhides and leather trading
Xuzhou Nanhai Leather Factory Co., Ltd.+ ("Xuzhou Tannery")	PRC/Mainland China	US$10,450,000	100	–	Processing of cowhides and leather trading
Guangdong Tannery (Xuzhou) Limited+	PRC/Mainland China	US$9,000,000	100	–	Leather trading

\+ Registered as wholly-foreign-owned enterprises under PRC law.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year and formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

16. INVENTORIES

	Group 2010 HK$'000	2009 HK$'000
Raw materials	54,148	37,996
Work in progress	67,013	39,964
Finished goods	30,717	28,413
	151,878	106,373

17. RECEIVABLES, PREPAYMENTS AND DEPOSITS

As at 31 December 2010, included in the Group's receivables, prepayments and deposits were trade and bills receivables with a net balance of HK$161,109,000 (2009: HK$162,157,000) due from the Group's customers.

The Group's trading terms with customers are mainly on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 30 days of issuance, except for certain well-established customers, where the terms are extended to two to three months. Each customer has a maximum credit limit. The Group seeks to maintain tight control over its outstanding receivables in order to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on the settlement due date, is as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Current	**160,771**	158,157
Less than 3 months	**902**	4,037
3 to 6 months	**115**	309
Over 6 months	**375**	417
	162,163	162,920
Impairment	**(1,054)**	(763)
	161,109	162,157

Movements in the provision for impairment of trade receivables are as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
At 1 January	**763**	460
Impairment losses recognised	**567**	484
Impairment losses reversed	**(309)**	(181)
Exchange realignment	**33**	–
At 31 December	**1,054**	763

The above provision for impairment of trade receivables is a provision for individually fully impaired trade receivables. The individually impaired trade receivables relate to customers that were in default or delinquency payments. The Group does not hold any collateral or other credit enhancements over these balances.

17. RECEIVABLES, PREPAYMENTS AND DEPOSITS (CONTINUED)

The aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Neither past due nor impaired	**160,771**	158,156
Less than 1 month past due	**236**	3,522
1 to 3 months past due	**102**	417
Over 3 months past due	**–**	62
	161,109	162,157

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in the credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**120,018**	164,613	**1,956**	9,689
Time deposits	**28,240**	–	**–**	–
	148,258	164,613	**1,956**	9,689
Less: Pledged bank balances*	**(19,351)**	(1,353)	**–**	–
Pledged time deposits*	**(12,963)**	–	**–**	–
Restricted bank balances	**(8,226)**	(6,246)	**–**	–
	(40,540)	(7,599)	**–**	–
Cash and cash equivalents	**107,718**	157,014	**1,956**	9,689

* These bank balances and time deposits were pledged to banks for banking facilities granted (note 34).

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18. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS (CONTINUED)

At the balance sheet date, the cash and bank balances and time deposits of the Group denominated in Renminbi ("RMB") amounted to HK$145,402,000 (2009: HK$138,755,000). The RMB is not freely convertible into other currencies; however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

The restricted bank balances represented bank balances frozen by the court orders in relation to certain pending litigations which adequate provision had been accrued as at the balance sheet date to cover the exposure.

19. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the payment due date, is as follows:

	Group	
	2010	2009
	HK$'000	*HK$'000*
Within 3 months	**23,481**	24,836
3 to 6 months	**18,691**	22,487
Over 6 months	**4,367**	7,273
	46,539	54,596

The trade payables of the Group are non-interest-bearing and are normally settled on terms of 60 to 90 days. Other payables of the Group and the Company are non-interest-bearing and have an average term of three months.

20. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2010			2009		
	Effective interest rate (%)	**Maturity**	**Amount *HK$'000***	Effective interest rate (%)	Maturity	Amount *HK$'000*
Current						
Trust receipt loans, secured	**2.63 – 3.60**	**2011**	**39,011**	–	–	–
Loans from the immediate holding company *(note 22)*	**1.25 – 2.34**	**2011**	**87,779**	–	–	–
Convertible notes, unsecured *(note 25)*	**–**	**–**	**–**	6.63	2010	63,327
			126,790			63,327
Non-current						
Loans from the immediate holding company *(note 22)*	**–**	**–**	**–**	1.29 – 2.44	2011	22,779
Loan from a fellow subsidiary *(note 23)*	**1.75 – 2.03**	**2012**	**54,600**	1.79 – 2.94	2011	54,600
			181,390			140,706

Company

	2010			2009		
	Effective interest rate (%)	**Maturity**	**Amount *HK$'000***	Effective interest rate (%)	Maturity	Amount *HK$'000*
Current						
Loans from the immediate holding company *(note 22)*	**1.25 – 2.34**	**2011**	**87,779**	–	–	–
Convertible notes, unsecured *(note 25)*	**–**	**–**	**–**	6.63	2010	63,327
			87,779			63,327
Non-current						
Loans from the immediate holding company *(note 22)*	**–**	**–**	**–**	1.29 – 2.44	2011	22,779
			87,779			86,106

20. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Analysed into:				
Bank loans repayable within one year	**39,011**	–	**–**	–
Other borrowings repayable within one year	**87,779**	63,327	**87,779**	63,327
Other borrowings not repayable within one year	**54,600**	77,379	**–**	22,779
	181,390	140,706	**87,779**	86,106

Notes:

(a) The Group's trust receipt loan facilities amounting to HK$135,148,000 (2009: HK$158,998,000), of which HK$39,011,000 (2009: Nil) had been utilised at 31 December 2010, are secured by the pledge of certain of the Group's bank deposits, and supported by corporate guarantees executed by the Company and a subsidiary of the Company (2009: pledge of certain of the Group's plant and machinery and bank deposits, and supported by corporate guarantees executed by the Company and a subsidiary of the Company).

Details of the pledge of assets are included in note 34 to the financial statements.

(b) The trust receipt loans are denominated in United States dollars.

The carrying amounts of the Group's interest-bearing bank and other borrowings approximate to their fair values.

21. DUE TO A PRC JOINT VENTURE PARTNER

The Group's amount due to a PRC joint venture partner is unsecured, interest-free and has no fixed terms of repayment. The carrying amount of this amount approximates to its fair value.

22. LOANS FROM THE IMMEDIATE HOLDING COMPANY

The following table illustrates the loans from GDH Limited ("GDH"), the Company's immediate holding company:

		Group		Company	
		2010	2009	**2010**	2009
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Current	*(a)*	**22,779**	–	**22,779**	–
	(b)	**65,000**	–	**65,000**	–
		87,779	–	**87,779**	–
Non-current	*(a)*	**–**	22,779	**–**	22,779
		87,779	22,779	**87,779**	22,779

Notes:

(a) The balance represents an unsecured loan of US$2,920,000 (2009: US$2,920,000), which bears interest at 3-month LIBOR + 1% (2009: 3-month LIBOR + 1%) and is repayable within one year from 31 December 2010 (2009: not repayable within one year from 31 December 2009).

(b) The balance represents an unsecured loan of HK$65,000,000 (2009: Nil), which bears interest at 3-month HIBOR + 2% (2009: Nil) and is repayable on 9 August 2011.

The carrying values of the loans approximate to their fair values.

23. LOAN FROM A FELLOW SUBSIDIARY

The balance represents an unsecured loan of US$7,000,000 (2009: US$7,000,000) (equivalent to approximately HK$54,600,000 (2009: HK$54,600,000)) advanced from Guangdong Assets Management Limited ("Guangdong Assets Management"), a fellow subsidiary of the Company. The loan bears interest at 3-month LIBOR + 1.5% (2009: 3-month LIBOR + 1.5%) and is not repayable within one year from 31 December 2010 (2009: not repayable within one year from 31 December 2009).

The carrying value of the loan approximates to its fair value.

24. PROVISION

Group

	Early termination of a joint venture agreement *HK$'000*
At 1 January 2010	**3,622**
Exchange realignment	**126**
At 31 December 2010	**3,748**

With respect to the Group's decision in August 2001 to curtail the operations of Qingdao Nanhai Tannery Co., Ltd. ("Qingdao Tannery"), a subsidiary of the Group, due to its continuous losses, provisions of RMB3,000,000 were made as at 31 December 2001 for (a) staff redundancy payments of RMB2,000,000; and (b) compensation of RMB1,000,000 to the PRC joint venture partner for early termination of the joint venture agreement with Qingdao Tannery. These provisions were determined based on the relevant employment contracts and the terms of the joint venture agreement.

Qingdao Tannery is a Sino-foreign co-operative joint venture. Pursuant to the joint venture agreement, the registered capital of Qingdao Tannery was solely contributed by the Company. The PRC joint venture partner contributed its plant and equipment for the operations of Qingdao Tannery. The Company is entitled to all its distributable profits after the payment of an agreed annual fee to the PRC joint venture partner.

During the year ended 31 December 2004, the arbitration proceedings undertaken by the Group and the PRC joint venture partner were concluded by the China International Economic and Trade Arbitration Commissions in Shenzhen and Beijing. These proceedings determined that (i) the joint venture agreement of Qingdao Tannery was terminated with effect from 23 August 2001; (ii) Qingdao Tannery should be liquidated in accordance with the joint venture agreement and the relevant laws and regulations in the PRC; and (iii) the PRC joint venture partner's claim against the Company for an economic loss of RMB15 million due to the termination of the joint venture agreement was revoked.

As the liquidation of Qingdao Tannery has not been completed, no payment for the provision, additional provision or reversal of provision was made during the year.

25. CONVERTIBLE NOTES

On 13 August 2007, the Company issued 61,500,000 1% convertible notes with a nominal value of HK$61,500,000 to GDH, with a maturity date on the third anniversary of the date of issue of the convertible notes (the "Maturity Date"). GDH has the right to convert the whole or part of the principal amount of the convertible notes into shares at any time and from time to time, from the 7th day after the date of the issue of the convertible notes up to the day which is 7 days prior to the Maturity Date, on the basis of one ordinary share for every 1.9 HK$1 notes held. There was no movement in the number of these convertible notes during the year. Any convertible notes not converted will be redeemed on the Maturity Date at a price of HK$1.0623 per HK$1 note. The notes carried interest at a rate of 1% per annum, payable semi-annually in arrears on 13 February and 13 August.

The convertible notes have been split as to the liability and equity components as follows:

	2010	2009
	HK$'000	*HK$'000*
Nominal value of convertible notes	**61,500**	61,500
Equity component	**(5,599)**	(5,599)
Direct transaction costs attributable to the liability component	**(537)**	(537)
Liability component at the issuance date	**55,364**	55,364
Interest expense	**11,813**	9,193
Interest paid	**(1,845)**	(1,230)
Redeemed during the year	**(65,332)**	–
Liability component at 31 December *(note 20)*	**–**	63,327

No convertible notes were converted, and the Company redeemed in full, the convertible notes on the Maturity Date, i.e. 12 August 2010, at a price of HK$1.0623 per HK$1 note.

26. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities of the Group during the year are as follows:

	Revaluation of properties *HK$'000*
At 1 January 2009	980
Deferred tax credited to the property revaluation reserve	(1)
Deferred tax credited to the income statement during the year *(note 7)*	(517)
At 31 December 2009 and 1 January 2010	**462**
Deferred tax debited to the property revaluation reserve	**31**
Deferred tax debited to the income statement during the year *(note 7)*	**224**
At 31 December 2010	**717**

The Group has tax losses arising in Hong Kong of HK$68,392,000 (2009: HK$61,364,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. As at 31 December 2010, the Group had no tax losses (2009: Nil) arising in the Mainland China that will expire in one to five years for offsetting against future taxable profit. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and the directors considered not probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

At 31 December 2010, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$3,629,000 at 31 December 2010 (2009: HK$2,617,000).

27. SHARE CAPITAL

Shares

	2010 HK$'000	2009 HK$'000
Authorised:		
700,000,000 ordinary shares of HK$0.10 each	**70,000**	70,000
Issued and fully paid:		
537,619,000 (2009: 537,619,000), ordinary shares of HK$0.10 each	**53,762**	53,762

There was no movement in the Company's issued ordinary share capital during the year.

A summary of the transactions of the Company's issued ordinary share capital is as follows:

	Number of shares in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2009	**537,504,000**	**53,750**	**413,968**	**467,718**
Share options exercised	**115,000**	**12**	**27**	**39**
At 31 December 2009 and 2010	**537,619,000**	**53,762**	**413,995**	**467,757**

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in note 28 to the financial statements.

28. SHARE OPTION SCHEME

On 24 November 2008, the Company adopted a new share option scheme (the "2008 Scheme").

The purpose of the 2008 Scheme is to provide incentives to selected employees, officers and directors who contribute to the Group and to provide the Company with a flexible means of retaining, incentivising, rewarding, remunerating, compensating and/or providing benefits to such employees, officers and directors or to serve such other purposes as the board of directors of the Company (the "Board") may approve from time to time. Eligible persons of the 2008 Scheme include the employees, officers or directors of a member of the Group. The 2008 Scheme, unless otherwise terminated or amended, will remain in force for 10 years from 24 November 2008.

The total number of ordinary shares which may be issued upon exercise of all share options to be granted under the 2008 Scheme (excluding any which has lapsed) and any other schemes of the Company must not, in aggregate, exceed 10% of the ordinary shares in issue as at the date of the adoption of the 2008 Scheme.

28. SHARE OPTION SCHEME (CONTINUED)

The total number of ordinary shares issued and to be issued upon exercise of the share options granted and to be granted under the 2008 Scheme to each eligible person (including both exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant of share options must not exceed 1% of the ordinary shares in issue at such date. Any further grant of share options under the 2008 Scheme in excess of this limit is subject to shareholders' approval in a general meeting of the Company.

Share options granted to a director or chief executive of the Company, or any of their respective associates, under the 2008 Scheme must be approved by the independent non-executive directors of the Company. In addition, for any share options granted to an independent non-executive director of the Company, or any of their respective associates, which would result in the ordinary shares issued and to be issued upon exercise of all share options already granted or to be granted under the 2008 Scheme (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant (i) representing in aggregate over 0.1% of the ordinary shares in issue; and (ii) having an aggregate value (based on the closing price of the ordinary shares at the date of grant) in excess of HK$5 million, such grant of options by the Board must be approved by shareholders in a general meeting.

An offer of grant of a share option under the 2008 Scheme may be accepted by the grantee within the period of the time stipulated by the Board, but no later than 14 days from the date of such offer. All share options under the 2008 Scheme will be unvested share options upon grant which will, subject to a grantee continuing to be an eligible person, vest with the grantee in accordance with the vesting schedules specified in their respective offer of grant. Subject to the rules of the 2008 Scheme and the relevant offer of the grant of a share option, a vested share option may be exercised in accordance with the terms of the rules of the 2008 Scheme at any time during the period to be determined and notified by the directors to each grantee, which period may commence on the date which is 2 years from the date of grant of the share option but shall end in any event not later than 10 years from the aforesaid date of grant. The exercise of any share option under the 2008 Scheme may be subject to the achievement of performance targets which may be determined by the Board, at its absolute discretion, on a case by case basis upon the grant of the relevant share option and stated in the offer of grant of such share option.

The exercise price of the share options under the 2008 Scheme is determinable by the Board and shall not be less than the highest of (i) the closing price of the ordinary shares as stated in the daily quotation sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the share options; (ii) the average closing price of the Company's ordinary shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of the share options; and (iii) the nominal value of the ordinary shares.

No dividends (including distributions made upon the liquidation of the Company) will be payable and no voting rights will be exercisable in relation to any share option that has not been exercised.

28. SHARE OPTION SCHEME (CONTINUED)

The following share options were outstanding during the year:

	2010		2009	
	Weighted average exercise price per share	**Number of options**	Weighted average exercise price per share	Number of options
	HK$	***'000***	*HK$*	*'000*
At 1 January	**0.278**	**2,000**	0.278	5,350
Granted during the year	**0.435**	**18,060**	–	–
Exercised during the year	**–**	**–**	0.278	(115)
Lapsed during the year	**0.278**	**(400)**	0.278	(3,235)
At 31 December	**0.422**	**19,660**	0.278	2,000

No share options were exercised during the year.

The exercise prices and exercise periods of the share options outstanding as at 31 December 2010 and 2009 are as follows:

2010

Number of options	**Exercise price per share***	**Exercise period**
'000	***HK$***	***(dd.mm.yyyy)***
400	**0.278**	**24.11.2010–23.5.2014**
600	**0.278**	**24.11.2011–23.5.2014**
200	**0.278**	**24.11.2012–23.5.2014**
400	**0.278**	**24.11.2013–23.5.2014**
7,224	**0.435**	**14.7.2012–13.1.2016**
5,418	**0.435**	**14.7.2013–13.1.2016**
1,806	**0.435**	**14.7.2014–13.1.2016**
3,612	**0.435**	**14.7.2015–13.1.2016**
19,660		

28. SHARE OPTION SCHEME (CONTINUED)

2009

Number of options '000	Exercise price per share* HK$	Exercise period (dd.mm.yyyy)
800	0.278	24.11.2010–23.05.2014
600	0.278	24.11.2011–23.05.2014
200	0.278	24.11.2012–23.05.2014
400	0.278	24.11.2013–23.05.2014
2,000		

* The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair values of the share options granted in the years 2008 and 2010 were HK$940,000 and HK$4,225,000 respectively of which the Group recognised an equity-settled share option expense of HK$767,000 (2009: HK$109,000) during the year ended 31 December 2010.

The fair value of equity-settled share options granted during the year was estimated as at the date of grant using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

	2010
Dividend yield (%)	**Nil**
Expected volatility (%)	**70.261**
Risk-free interest rate (%)	**1.64**
Expected life of options (year)	**5.5**
Closing share price at date of grant (HK$)	**0.435**

The expected life of the options is based on the historical data over the past 5.5 years and is not necessarily indicative of the exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

During the year ended 31 December 2010, 18,060,000 share options were granted by the Company, 400,000 share options were lapsed and no share options were exercised or cancelled under the 2008 Scheme.

As at 31 December 2010, the Company had 19,660,000 share options outstanding, which represented approximately 3.66% of ordinary shares in issue at that date. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 19,660,000 additional ordinary shares of the Company and additional share capital of HK$1,966,000 and share premium of HK$6,335,000 (before issue expenses).

28. SHARE OPTION SCHEME (CONTINUED)

At the date of approval of these financial statements, the Company had 19,660,000 share options outstanding under the 2008 Scheme, which represented approximately 3.66% of the Company's shares in issue as at that date.

The total number of ordinary shares which may be issued upon exercise of share options yet to be granted under the 2008 Scheme (and thus not including those ordinary shares for share options already granted but yet to be exercised) was 30,340,400, which represented approximately 5.64% of the issued share capital of the Company as at the date of this annual report.

29. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

The general reserve fund of the Group is an undistributable reserve and may not be treated as realised profits.

On 25 November 1996, a court order confirming the reduction of the share premium account by HK$133,349,000 was registered by the Registrar of Companies in Hong Kong and the credit arising therefrom was transferred to the general reserve fund against which goodwill arising on the acquisition of a subsidiary was eliminated in the consolidated financial statements. In the year ended 31 December 2002, there was a release of goodwill of HK$133,349,000 in respect of impairment of an investment in a subsidiary relating to the goodwill arising from acquisition of that subsidiary in 1996.

Pursuant to a special resolution passed in the Group's extraordinary general meeting held on 23 January 1998 and confirmed by the Order of the High Court of Hong Kong dated 2 March 1998, the share premium account was reduced by the amount of HK$34,397,000 and, as undertaken by the Group, a general reserve fund was credited in the books of accounts of the Group in the same amount for the purpose of setting off, in the consolidated financial statements of the Group and its subsidiaries, goodwill arising on consolidation in 1997. In 2000 and 2001, there was a release of goodwill of HK$12,478,000 and HK$21,919,000, respectively, in respect of impairment of investments in subsidiaries relating to the goodwill arising from the acquisition of the subsidiaries in 1997.

Pursuant to the relevant PRC laws and regulations, a portion of the profits of the Group's subsidiary which is established in the Mainland China has been transferred to reserve funds which are restricted as to use.

29. RESERVES (CONTINUED)

(b) Company

	Note	Share premium account HK$'000	Equity component of convertible notes HK$'000	General reserve fund HK$'000	Share option reserve HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2009		413,968	5,545	167,746	35	445	(387,852)	199,887
Equity-settled share option arrangements		–	–	–	109	–	–	109
Issue of shares		27	–	–	(6)	–	–	21
Total comprehensive loss for the year	10	–	–	–	–	–	(15,616)	(15,616)
At 31 December 2009 and 1 January 2010		**413,995**	**5,545**	**167,746**	**138**	**445**	**(403,468)**	**184,401**
Equity-settled share option arrangements		**–**	**–**	**–**	**767**	**–**	**–**	**767**
Total comprehensive income for the year	10	**–**	**–**	**–**	**–**	**–**	**2,410**	**2,410**
At 31 December 2010		**413,995**	**5,545**	**167,746**	**905**	**445**	**(401,058)**	**187,578**

The Company's general reserve fund represents an undistributable reserve and may not be treated as realised profits as detailed in note 29(a) to the financial statements.

30. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees given to banks for banking facilities granted to a subsidiary	**–**	–	**68,749**	158,998
Banking facilities with the Company's guarantees utilised by a subsidiary	**–**	–	**26,149**	–

31. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leased its investment property (note 13) prior to its disposal under an operating lease arrangement.

At 31 December 2009, the Group had total future minimum lease receivables under the non-cancellable operating lease with its lessee falling due as follows:

	2009 *HK$'000*
Within one year	64

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms of two years.

At 31 December 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2010 ***HK$'000***	2009 *HK$'000*
Within one year	**96**	337
In the second to fifth years, inclusive	**–**	96
	96	433

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32. COMMITMENTS

In addition to the operating lease commitments detailed in note 31(b) above, the Group had the following capital commitments at the balance sheet date:

	Group		Company	
	2010	2009	**2010**	2009
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Contracted, but not provided for:				
Land and buildings	**11,601**	9,207	**–**	–
Leasehold improvements	**411**	397	**–**	–
Plant and machinery	**1,169**	913	**–**	–
	13,181	10,517	**–**	–
Authorised, but not contracted for:				
Land and buildings	**23,302**	87,752	**–**	–
Plant and machinery	**52,570**	77,091	**–**	–
Capital contributions payable to a subsidiary	**–**	–	**–**	39,000
	75,872	164,843	**–**	39,000
	89,053	175,360	**–**	39,000

33. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

		Group	
	Notes	**2010** **HK$'000**	2009 HK$'000
Office rental paid to a fellow subsidiary	*(i)*	**282**	291
Computer system maintenance service fees paid to the immediate holding company	*(ii)*	**159**	159
Interest expenses to the immediate holding company	*(iii)*	**3,537**	5,161
Interest expense to a fellow subsidiary	*(iv)*	**1,019**	1,317

Notes:

(i) The office rental was charged by a fellow subsidiary at HK$23,467 per month (2009: HK$23,467 per month) commencing from 6 February 2009 in accordance with the terms of the rental agreement between the Group and the fellow subsidiary. At the balance sheet date, the Group had a rental deposit of HK$84,480 (2009: HK$84,480) with the fellow subsidiary.

(ii) The immediate holding company charged maintenance service fees at HK$13,265 per month for the year ended 31 December 2010 (2009: HK$13,265 per month) for the computer system used by the Group.

(iii) The interest expenses to the immediate holding company arose from the loans advanced from GDH and convertible notes to GDH. Further details of the loans and convertible notes, including the terms, are disclosed in notes 22 and 25, respectively, to the financial statements.

(iv) The interest expense to a fellow subsidiary arose from a loan advanced from Guangdong Assets Management. Further details of the loan, including the terms, are disclosed in note 23 to the financial statements.

(b) Outstanding balances with related parties:

(i) Details of the Group's and Company's loans from the immediate holding company and the Group's loan from a fellow subsidiary as at the balance sheet date are included in notes 22 and 23 to the financial statements, respectively.

(ii) Details of the Group's convertible notes to GDH as at the balance sheet date are included in note 25 to the financial statements.

(c) Compensation of key management personnel of the Group:

The key management personnel of the Company are its directors. Details of their remuneration are disclosed in note 8 to the financial statements.

The transactions in respect of item (b)(ii) above also constituted connected transactions as defined in Chapter 14A of the Listing Rules.

34. PLEDGE OF ASSETS

As at 31 December 2010, assets of the Group pledged to banks to secure general banking facilities granted to the Group were as follows:

		Group	
	Notes	**2010** **HK$'000**	2009 *HK$'000*
Plant and machinery	*12*	**–**	14,855
Bank balances and deposits	*18*	**32,314**	1,353
		32,314	16,208

35. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

Financial assets

	Group	
	2010 **Loans and receivables** ***HK$'000***	2009 Loans and receivables *HK$'000*
Trade and bills receivables	**161,109**	162,157
Financial assets included in prepayments, deposits and other receivables	**237**	490
Pledged deposits	**32,314**	1,353
Restricted bank balances	**8,226**	6,246
Cash and cash equivalents	**107,718**	157,014

35. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities

	Group	
	2010	2009
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	*HK$'000*
Trade payables	**46,539**	54,596
Financial liabilities included in other payables and accruals	**29,268**	27,156
Interest-bearing bank and other borrowings	**39,011**	–
Due to a PRC joint venture partner	**1,131**	1,131
Loans from the immediate holding company	**87,779**	22,779
Loan from a fellow subsidiary	**54,600**	54,600
Convertible notes	**–**	63,327

Financial assets

	Company	
	2010	2009
	Loans and receivables	Loans and receivables
	HK$'000	*HK$'000*
Financial assets included in prepayments, deposits and other receivables	**21**	21
Cash and bank balances	**1,956**	9,689

Financial liabilities

	Company	
	2010	2009
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	HK$'000	*HK$'000*
Financial liabilities included in other payables and accruals	**1,759**	1,090
Loans from the immediate holding company	**87,779**	22,779
Convertible notes	**–**	63,327

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing secured bank borrowings, interest-bearing unsecured loans from the immediate holding company and a fellow subsidiary of the Group, convertible notes, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and bills receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's certain debt obligations with floating interest rates except for convertible notes with a fixed interest rate.

The Group's policy is to manage its interest cost using an appropriate mix of fixed and floating rate borrowings. Despite the fact that the Group had its debt obligations at floating interest rates, in the opinion of the directors, the Group had no significant concentration of interest rate risk.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** *HK$'000*
2010		
Hong Kong dollar	**100**	**(650)**
United States dollar ("US$")	**100**	**(774)**
Hong Kong dollar	**(10)**	**65**
US$	**(10)**	**77**
2009		
Hong Kong dollar	100	–
US$	100	(774)
Hong Kong dollar	(20)	–
US$	(20)	155

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

The Group has transactional currency exposures. Such exposures arise from purchases by operating units in currencies other than the units' functional currency. Approximately 77% (2009: 59%) of the Group's purchases are denominated in currencies other than the functional currency of the operating units making the purchases, whilst all sales are denominated in the units' functional currency.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in US$-RMB exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the equity of the Group.

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in profit before tax
	%	*HK$'000*
2010		
If RMB weakens against US$	**(1)**	**(3,507)**
If RMB strengthens against US$	**3**	**10,522**
2009		
If RMB weakens against US$	(1)	(1,610)
If RMB strengthens against US$	3	4,831

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. Details of the credit policy of trade and bills receivables are set out in note 17 to the financial statements.

The credit risk of the Group's other financial assets, which comprises cash and cash equivalents, pledged deposits and trade and bills receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. As the Group's exposure spreads over a diversified portfolio of customers, there are no significant concentrations of credit risk within the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade and bills receivables are disclosed in note 17 to the financial statements.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans, convertible notes and other interest-bearing loans. The Group's policy is that interest-bearing borrowings constituting not more than 50% of total financial liabilities should mature in any 12-month period. At 31 December 2010, interest-bearing borrowings constituting 49% (2009: 29%) of the Group's total financial liabilities would mature in less than 12 months based on the carrying value of borrowings reflected in the financial statements.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, is as follows:

Group

	2010				
	On demand *HK$'000*	**Less than 3 months** *HK$'000*	**3 to less than 12 months** *HK$'000*	**Over 1 year** *HK$'000*	**Total** *HK$'000*
Trade payables	**23,058**	**23,481**	**–**	**–**	**46,539**
Other payables	**29,268**	**–**	**–**	**–**	**29,268**
Interest-bearing bank and other borrowings	**–**	**39,226**	**–**	**–**	**39,226**
Due to a PRC joint venture partner	**1,131**	**–**	**–**	**–**	**1,131**
Loans from the immediate holding company	**–**	**–**	**87,779**	**–**	**87,779**
Loan from a fellow subsidiary	**–**	**–**	**–**	**54,600**	**54,600**
	53,457	**62,707**	**87,779**	**54,600**	**258,543**

	2009				
	On demand *HK$'000*	Less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	Over 1 year *HK$'000*	Total *HK$'000*
Trade payables	29,760	24,836	–	–	54,596
Other payables	27,156	–	–	–	27,156
Due to a PRC joint venture partner	1,131	–	–	–	1,131
Loan from the immediate holding company	–	–	–	22,779	22,779
Loan from a fellow subsidiary	–	–	–	54,600	54,600
Convertible notes	–	–	65,331	–	65,331
	58,047	24,836	65,331	77,379	225,593

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (Continued)

Company

	2010				
	On demand	**Less than 3 months**	**3 to less than 12 months**	**Over 1 year**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Other payables	**1,759**	**–**	**–**	**–**	**1,759**
Loans from the immediate holding company	**–**	**–**	**87,779**	**–**	**87,779**
	1,759	**–**	**87,779**	**–**	**89,538**

	2009				
	On demand	Less than 3 months	3 to less than 12 months	Over 1 year	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other payables	1,090	–	–	–	1,090
Loan from the immediate holding company	–	–	–	22,779	22,779
Convertible notes	–	–	65,331	–	65,331
	1,090	–	65,331	22,779	89,200

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder's value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 2009.

The Group monitors capital using a gearing ratio, which is total debt divided by the adjusted capital plus total debt. Total debt includes interest-bearing bank and other borrowings, loans from the immediate holding company, and a loan from a fellow subsidiary. Capital includes the liability component of convertible notes and equity attributable to equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

	2010 ***HK$'000***	2009 *HK$'000*
Interest-bearing bank and other borrowings, excluding convertible notes *(note 20)*	**39,011**	–
Loans from the immediate holding company *(note 22)*	**87,779**	22,779
Loan from a fellow subsidiary *(note 23)*	**54,600**	54,600
Total debt	**181,390**	77,379
Convertible notes, the liability component *(note 25)*	**–**	63,327
Equity attributable to equity holders of the parent	**303,121**	281,024
Adjusted capital	**303,121**	344,351
Adjusted capital and total debt	**484,511**	421,730
Gearing ratio	**37%**	18%

37. LITIGATION

In December 2009, Xuzhou Tannery received a writ summons from an independent PRC construction contractor (the "PRC Contractor") claiming an outstanding construction cost of approximately RMB5,100,000 (equivalent to HK$5,994,000) and related interest of RMB270,000 (equivalent to HK$317,000) in respect of three construction contracts entered into by Xuzhou Tannery and the PRC Contractor (the "Claim"). The PRC Contractor has also applied a court order to freeze a bank account of Xuzhou Tannery with a balance of RMB5,500,000 (equivalent to HK$6,463,000). In January 2010, Xuzhou Tannery filed a counter claim stating that the PRC Contractor had delayed the construction work resulting in loss of business in Xuzhou Tannery, and Xuzhou Tannery demanded for the PRC Contractor to pay damages of RMB2,738,000 (equivalent to HK$3,218,000) and economic losses of RMB3,006,000 (equivalent to HK$3,533,000). Having considered the Group's legal advice, the directors of the Company are of the opinion that Xuzhou Tannery has valid ground to defend against the Claim, and adequate provision had been accrued as at the balance sheet date to cover the exposure of this litigation.

38. EVENT AFTER THE REPORTING PERIOD

(a) On 1 February 2011, a special resolution was passed by the shareholders of the Company for approving the reduction in share premium of the Company. The purpose of such reduction in share premium is to reduce the credit standing to the share premium account of the Company to the extent of HK$393,345,845 and to apply the credit arising from such reduction to eliminate the accumulated losses of the Company by the same amount. The completion of the reduction in share premium is subject to the confirmation by the High Court of Hong Kong.

(b) On 5 November 2007, the Group entered into an investment agreement with the Xuzhou Economic Development Management Committee for the establishment of a new subsidiary in the Xuzhou city (the "Jinsanqiao Factory"), with registered capital of US$9 million. The then authorised but not contracted for commitment of Jinsanqiao Factory was approximately HK$80,760,000.

On 7 February 2010, due to the Xuzhou City People's Government's notice aiming to encourage and facilitate the development of leather products industry in a specialised zone, the Group entered into a new investment agreement with Jiangsu Suining County People's Government for setting up a new factory in the specialised zone. The relevant authorised but not contracted for commitment was reduced to HK$67,990,000.

In view of the aforesaid policy of the Xuzhou City People's Government, the then existing downstream finished leather products manufacturing operations of Xuzhou Tannery were also relocated to and integrated into the said new factory.

The Board considers that both the said new factory and the existing facilities are adequate to meet the Group's current needs.

On 11 March 2011, the Company announced that the said new factory had been completed and the total capital expenditure incurred was finally reduced to HK$32,182,000.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 11 March 2011.